Mashreqbank PSC Group

Condensed consolidated interim financial information for the period from 1 January 2020 to 31 March 2020

Mashreqbank PSC Group

Review report and condensed consolidated interim financial information for the period from 1 January 2020 to 31 March 2020

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 31 March 2020 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory information. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
16 April 2020

Douglas O'Mahony
Registered Auditor Number 834
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Mashreqbank PSC Group

Condensed consolidated statement of financial position as at 31 March 2020

	Notes	31 March 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
ASSETS			
Cash and balances with central banks		**15,639,645**	20,939,700
Deposits and balances due from banks		**30,596,269**	26,565,848
Other financial assets measured at fair value	6	**3,879,200**	4,522,166
Other financial assets measured at amortised cost	6	**10,055,732**	10,875,153
Investment in associate		**20,996**	29,355
Loans and advances measured at amortised cost	7	**62,838,064**	61,710,277
Islamic financing and investment products measured at amortised cost	8	**15,446,875**	14,456,757
Acceptances		**15,664,747**	12,903,083
Other assets		**3,599,398**	2,738,265
Reinsurance contract assets		**2,690,825**	2,585,918
Investment properties	9	**473,591**	473,591
Property and equipment	10	**1,655,297**	1,630,870
Total assets		**162,560,639**	159,430,983
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	**15,378,969**	11,184,496
Repurchase agreements with banks		**832,935**	1,088,537
Customers' deposits	12	**77,950,562**	76,439,572
Islamic customers' deposits	13	**10,545,403**	14,529,261
Acceptances		**15,664,747**	12,903,083
Other liabilities		**5,218,337**	4,950,558
Medium-term notes	14	**10,872,011**	11,838,757
Insurance and life assurance funds		**4,404,385**	4,253,789
Total liabilities		**140,867,349**	137,188,053
EQUITY			
Capital and reserves			
Issued and paid up capital	15	**1,775,308**	1,775,308
Statutory and legal reserves		**907,714**	907,714
General reserve		**312,000**	312,000
Currency translation reserve		**(104,843)**	(88,720)
Investments revaluation reserve		**(513,768)**	(273,595)
Cash flow hedge reserve		**2,496**	4,292
Retained earnings		**18,621,989**	18,895,583
Equity attributable to owners of the Parent		**21,000,896**	21,532,582
Non-controlling interests	16	**692,394**	710,348
Total equity		**21,693,290**	22,242,930
Total liabilities and equity		**162,560,639**	159,430,983

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

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

Mashreqbank PSC Group

Condensed consolidated statement of profit or loss for the period from 1 January 2020 to 31 March 2020 (un-audited)

	Notes	For the three month period ended 31 March 2020 AED '000	2019 AED '000
Interest income		**1,326,531**	1,501,937
Income from Islamic financing and investment products		**157,018**	184,296
Total interest income and income from Islamic financing and investment products		**1,483,549**	1,686,233
Interest expense		**(625,671)**	(669,025)
Distribution to depositors – Islamic products		**(76,311)**	(81,066)
Net interest income and income from Islamic products net of distribution to depositors		**781,567**	936,142
Fee and commission income		**717,505**	731,132
Fee and commission expense		**(369,298)**	(370,269)
Net fee and commission income		**348,207**	360,863
Net investment income		**127,115**	47,815
Other income, net		**266,151**	224,585
Operating income		**1,523,040**	1,569,405
General and administrative expenses	17	**(632,194)**	(651,310)
Operating profit before impairment		**890,846**	918,095
Allowances for impairment, net		**(408,678)**	(261,111)
Profit before tax		**482,168**	656,984
Tax expense		**(11,010)**	(7,788)
Profit for the period		**471,158**	649,196
Attributed to:			
Owners of the Parent		**450,294**	628,160
Non-controlling interests		**20,864**	21,036
		471,158	649,196
Earnings per share (AED)	18	**2.54**	3.54

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Condensed consolidated statement of other comprehensive income for the period from 1 January 2020 to 31 March 2020 (un-audited)

	For the three month period ended 31 March	
	2020	**2019**
	AED ’000	**AED ’000**
Profit for the period	**471,158**	649,196
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments)	**(138,433)**	29,887
Items that may be reclassified subsequently to profit or loss:		
Changes in currency translation reserve	**(16,973)**	(795)
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments)	**(153,473)**	4,462
Cash flow hedges - fair value loss arising during the period	**(1,796)**	(5,559)
Total other comprehensive (loss) / income for the period	**(310,675)**	27,995
Total comprehensive income for the period	**160,483**	677,191
Attributed to:		
Owners of the Parent	**178,437**	652,345
Non-controlling interests	**(17,954)**	24,846
	160,483	677,191

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Condensed consolidated statement of changes in equity for the period from 1 January 2020 to 31 March 2020 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156	20,144,104	621,585	20,765,689
Changes on initial application of IFRS 16	-	-	-	-	-	-	(5,937)	(5,937)	(49)	(5,986)
Restated balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,475,219	20,138,167	621,536	20,759,703
Profit for the period	-	-	-	-	-	-	628,160	628,160	21,036	649,196
Other comprehensive income / (loss)	-	-	-	(75)	29,819	(5,559)	-	24,185	3,810	27,995
Total comprehensive (loss) / income for the period	-	-	-	(75)	29,819	(5,559)	628,160	652,345	24,846	677,191
Payment of dividends (Note 15)	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Transfer from investments revaluation reserve to retained earnings	-	-	-		5,596	-	(5,596)	-	-	-
Balance at 31 March 2019	1,775,308	903,877	312,000	(81,455)	(207,318)	(9,683)	17,387,660	20,080,389	646,382	20,726,771

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Condensed consolidated statement of changes in equity for the period from 1 January 2020 to 31 March 2020 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2020	**1,775,308**	**907,714**	**312,000**	**(88,720)**	**(273,595)**	**4,292**	**18,895,583**	**21,532,582**	**710,348**	**22,242,930**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**450,294**	**450,294**	**20,864**	**471,158**
Other comprehensive (loss)	**-**	**-**	**-**	**(16,123)**	**(253,938)**	**(1,796)**	**-**	**(271,857)**	**(38,818)**	**(310,675)**
Total comprehensive (loss) / income for the period	**-**	**-**	**-**	**(16,123)**	**(253,938)**	**(1,796)**	**450,294**	**178,437**	**(17,954)**	**160,483**
Payment of dividends (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**(710,123)**	**(710,123)**	**-**	**(710,123)**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**13,765**	**-**	**(13,765)**	**-**	**-**	**-**
Balance at 31 March 2020	**1,775,308**	**907,714**	**312,000**	**(104,843)**	**(513,768)**	**2,496**	**18,621,989**	**21,000,896**	**692,394**	**21,693,290**

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Condensed consolidated statement of cash flows for the period from 1 January 2020 to 31 March 2020 (un-audited)

	For the three month period ended 31 March	
	2020	**2019**
	AED '000	**AED '000**
Cash flows from operating activities		
Profit before taxation for the period	**482,168**	656,984
Adjustments for:		
Depreciation of property and equipment	**55,023**	39,149
Allowance for impairment, net	**408,678**	261,111
Gain on disposal of property and equipment	**-**	635
Unrealised loss on other financial assets held at Fair Value Through Profit or Loss (FVTPL)	**36,263**	(24,059)
Unrealised gain/(loss) on derivatives	**17,577**	(752)
Dividend income from financial assets measured at FVTOCI	**(13,916)**	(7,300)
Realised gain on disposal of other financial assets	**(149,323)**	(13,472)
Changes in operating assets and liabilities		
Decrease / (increase) in deposits with central banks	**2,403,822**	(2,990,165)
(Increase) / decrease in deposits and balances due from banks maturing after three months	**(3,077,696)**	4,105,064
Decrease / (increase) in other financial assets measured at FVTPL	**53,873**	(439,355)
(Increase) / decrease in loans and advances measured at amortised cost	**(1,417,583)**	106,185
Increase in Islamic financing and investment products measured at amortised cost	**(1,048,891)**	(933,327)
(Increase) / decrease in other assets	**(3,633,484)**	395,367
Increase in reinsurance contract asset	**(104,907)**	(71,415)
Increase / (decrease) in deposits and balances due to banks	**1,035,772**	(455,146)
Increase in customers' deposits	**1,510,990**	166,011
Decrease in Islamic customers' deposits	**(3,983,857)**	(2,738,306)
Increase in insurance and life assurance funds	**150,596**	215,904
Increase / (decrease) in other liabilities	**3,029,443**	(744,025)
Increase / (decrease) in repurchase agreements with banks	**7,565**	(858,410)
Taxes paid	**(11,010)**	(7,788)
Net cash used in operating activities	**(4,248,897)**	(3,337,110)
Cash flows from investing activities		
Purchase of property and equipment	**(79,459)**	(82,976)
Proceeds from sale of property and equipment	**-**	296
Net decrease in non-trading investments	**1,187,853**	(147,353)
Dividend income received from other financial assets measured at FVTOCI	**13,916**	7,300
Net cash generated from/ (used in) investing activities	**1,122,310**	(222,733)

Condensed consolidated statement of cash flows for the period from 1 January 2020 to 31 March 2020 (un-audited) (continued)

	For the three month period ended 31 March	
	2020	**2019**
	AED '000	**AED '000**
Cash flows from financing activities		
Dividends paid	**(710,123)**	(710,123)
Medium term notes issued during the period	**727,872**	3,531,727
Medium term notes redeemed during the period	**(1,652,289)**	(1,636,150)
Net cash (used in)/ generated from financing activities	**(1,634,540)**	1,185,454
Net decrease in cash and cash equivalents	**(4,761,127)**	(2,374,389)
Net foreign exchange difference	**(16,123)**	(75)
Cash and cash equivalents at beginning of the period (Note 19)	**15,342,617**	20,707,074
Cash and cash equivalents at end of the period (Note 19)	**10,565,367**	18,332,610

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 31 March 2020

1 General information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies

3.1 Basis of preparation

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

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

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

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

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

3.2 Basis of consolidation

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets

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

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

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

Classification of financial assets

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

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

i the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

ii the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

(a) Equity instruments

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

(a) Equity instruments (continued)

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

Amortised cost and effective interest method

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

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

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

(ii) Modification of loans

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(ii) Modification of loans (continued)

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

(iii) Derecognition other than on a modification

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

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

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

3.4 Financial liabilities

Classification and subsequent measurement

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

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

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

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

Derecognition

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

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

3.5 Financial guarantee contracts and loan commitments

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

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

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

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

3 Summary of significant accounting policies (continued)

3.6 Foreign exchange gains and losses

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

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

3.7 Islamic financing and investment products

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

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

(i) Accounting policy

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

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

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

(ii) Revenue recognition policy

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

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products (continued)

(ii) Revenue recognition policy (continued)

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

(iii) Islamic customers' deposits and distributions to depositors

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

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

3.8 Investment properties

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

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

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

3 Summary of significant accounting policies (continued)

3.9 Leasing

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.10 Financial risk management

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

3.11 Cash and cash equivalents

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

4 Risk management

4.1 Credit risk

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

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

4 Risk management (continued)

4.1 Credit risk (continued)

i) The credit risk exposures relating to loans and advances are as follows:

	31 March 2020 (un-audited)			
Loans and advances (including Islamic financing and investment products measured at amortised cost)	**Stage 1** **12-month**	**Stage 2** **Lifetime**	**Stage 3** **Lifetime**	**Total**
	AED (in million)			
Gross carrying amount	74,144	4,190	4,268	82,602
Loss allowance	(551)	(1,492)	(2,274)	(4,317)
Carrying amount	**73,593**	**2,698**	**1,994**	**78,285**

	31 December 2019 (audited)			
Loans and advances (including Islamic financing and investment products measured at amortised cost)	**Stage 1** **12-month**	**Stage 2** **Lifetime**	**Stage 3** **Lifetime**	**Total**
	AED (in million)			
Gross carrying amount	70,980	5,674	3,486	80,140
Loss allowance	(476)	(1,505)	(1,992)	(3,973)
Carrying amount	**70,504**	**4,169**	**1,494**	**76,167**

During the period ended 31 March 2020, loans and advances and Islamic financing assets amounting to AED 952 million were transferred from stage 1 to stage 2, whereas AED 8 million were transferred from stage 2 to stage 1, AED 30 million were transferred from stage 1 to stage 3, AED 1,245 million were transferred from stage 2 to stage 3, and AED 30 million were transferred from stage 3 to stage 2. The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investment products measured at amortised cost have been disclosed in notes 7 and 8 respectively.

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

	31 March 2020 (un-audited)			
Off-balance sheet items	**Stage 1** **12-month**	**Stage 2** **Lifetime**	**Stage 3** **Lifetime**	**Total**
	AED (in million)			
Guarantees	42,181	2,736	-	44,917
Letters of credit	9,299	343	-	9,642
	51,480	**3,079**	**-**	**54,559**

4 Risk management (continued)

4.1 Credit risk (continued)

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

During the period ended 31 March 2020, off balance sheet exposures (LCs and LGs) amounting to AED 84 million were transferred from stage 1 to stage 2, AED 1 million transferred from stage 2 to stage 1. Total provision against off balance sheet exposures (LCs, LGs and commitment) amounted to AED 153 million as at 31 March 2020 (31 December 2019: AED 159 million).

iii) As at 31 March 2020, other assets and acceptances include financial assets of AED 15,663 million which have been classified under stage 1, AED 731 million has been classified under stage 2 and AED 479 million has been classified under stage 3. Exposure of AED 9 million were transferred from stage 1 to 2 during the period ended 31 March 2020. Total provision under other assets amounts to AED 442 million as at 31 March 2020 (31 December 2019: AED 458 million).

iv) As at 31 March 2020, the Group has recorded ECL of AED 170 million (31 December 2019: AED 109 million) in respect of deposits and balances due from banks and AED 32 million (31 December 2019: AED 26 million) in respect of other financial assets measured at amortised cost.

4.2 Risk management in the current economic scenario

The economic fallout of COVID-19 crisis is expected to be significant and is rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE ("CBUAE") has also announced multiple measures and incentives totaling to AED 256 billion to help banks support the economic sectors and individuals in the UAE impacted by this crisis.

COVID-19 impact on measurement of ECL

IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant 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 (GCRO) with participation from Chief Financial Officer, Chief Credit Officer and head of business division as members. The Bank, through the forum, reviews the appropriateness of inputs and methodology for IFRS 9 ECL on an ongoing basis.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect impacts in our ECL estimates. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, the Bank has assessed the impact of an increase in probability for the pessimistic scenario in ECL measurement. The probability of pessimistic scenario was increased from 20% to 40% while the probability of the optimistic scenario was reduced to 0%. If the pessimistic scenario was further increased by 10%, ECL provision would increase by AED 65 million.

The Bank has also reassessed its portfolio of Stage 1 customers as at 31 March 2020 with none of its customers having experienced a significant increase in credit risk due to COVID-19. This included evaluating whether the investment portfolio has suffered a significant deterioration in credit quality. Based on ratings from external rating agencies, the Bank has concluded that there has not been a significant increase in credit risk.

The Bank continues to work with CBUAE and other regulatory authorities in the jurisdictions it operates to refine and operationalize relief schemes being deployed to assist clients impacted by COVID-19. This includes the Targeted Economic Support Scheme ("TESS") announced in UAE on 6 April 2020. None of the Bank's clients had subscribed to these schemes as at 31 March 2020.

Liquidity management

Global stress in the markets brought on by the COVID-19 crisis is being felt by the UAE banks through lack of liquidity in foreign funding markets. The decline in oil prices (from ~US$ 70 in January to currently ~US$25 per barrel) has also led to uncertainty about the oil rich GCC region's Governments' finances. In this environment, the Bank has already taken measures to manage its liquidity carefully until access to foreign funding markets improves. The Bank's ALCO has been meeting on a daily basis since 25 March 2020. ALCO's primary focus has been liquidity management – closely monitoring the cash flows and forecasts for next 4 weeks. It has also been monitoring the liquidity situation in overseas branches. The Bank is strengthening its liquidity buffer through selective disbursals and raising both local deposits as well as repo funding from International counterparts.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Liquidity management (continued)

The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive TESS on 6 April 2020, allowing UAE Banks to access zero cost funding and pass on the benefit through Principal and Interest deferrals to their clients.

CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity. In order to allow Banks to utilize the liquidity thus released, the CBUAE reduced the liquidity ratios (LCR and ELAR) minimum threshold by 30%. The combination of above measures by the CBUAE along with prudent management of liquidity by the Bank will help ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption, even during a prolonged period of reduced access to the foreign funding markets.

Business continuity planning

The Bank is closely monitoring the situation and has invoked crisis management actions to ensure safety and security of Bank staff and an uninterrupted service to our customers. A Task force with representation from all key areas of the Bank has been set up to monitor the COVID-19 situation and take timely decisions to resolve any concerns. Remote working arrangements have been 100% tested and majority of the staff are currently working from home. Business Continuity Plans (BCP) for respective areas are in place and tested. The Bank has significantly enhanced monitoring for all cyber risk during these times from its "Security Monitoring Operations Center". The remote work capabilities were enabled for all staff and related risk and control measures were assessed to make sure they are fully protected using Mutli-factor authentication ("MFA") and virtual private network ("VPN") connections. Further, the Bank has also ensured that its remote access systems are sufficiently resilient to withstand Distributed Denial of Service ("DDOS") attacks.

BCP for all units are updated and tested and the Bank is monitoring local developments that affect our offices across the world. The Bank is communicating with its customers on how they can connect with the Bank through its full suite of channels including digital and online channels. The Bank has taken all measures to ensure that service levels are maintained, customer complaints are resolved as per SLAs and the Bank continues to meet the expectations of their clients as they would in a normal scenario.

COVID-19 impact on insurance subsidiairy of the Group

The Bank's insurance subsidiary ("subsidiary") had already embarked on Business Continuity Planning in 2019 and as a result over 90% of the staff base of the subsidiary is capable of working from home to ensure no interruption on client servicing and operations. In terms of General Insurance Business the subsidiary has mainly noticed an increase in Business Interruption (BI) claims which are currently under processing by its claims department and the subsidiary expects no material impact of those BI claims on the overall claims position.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

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

Additionally, since the virus is classified by the World Health Organization (WHO) as a 'pandemic', the subsidiary's management believes the exposure on healthcare policies is limited due to policy exclusions that are designed to prevent healthcare providers facing unsustainable losses in a pandemic situation. The impact on life insurance is expected to be minimal at this point. The subsidiary continues to provide support to its customers for access to quality healthcare.

On the reinsurance side, the subsidiary is maintaining a list duly approved by the Risk Committee in which more than 95% of the reinsurance entities are "A rated". The subsidiary continues to have a robust collection and credit control process and the liquidity continues to remain strong. The subsidiary has carried out stress testing to assess the resilience of their solvency compliance, which remains very strong after considering the current impact of the shocks.

The subsidiary does anticipate some slowdown in the economy and lower revenue in the months to come. As the situation develops the subsidiary will continue to monitor the situation closely.

4.3 Compliance risk

Contingent liabilities

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

Additionally, in 2019 the UK branch of the Bank was in discussions with the UK regulator in relation to compliance of its financial crime policy and the report from the UK regulator is expected in the current year.

It is therefore premature at this time to determine the quantum of the penalty, if any, that may be levied by the regulators.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

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

5.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model to reflect how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.2 Measurement of the expected credit loss allowance

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

6 Other financial assets

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	**912,681**	876,295
Equities	**8,800**	15,235
Mutual and other funds	**474,344**	599,310
	1,395,825	1,490,840
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**2,067,288**	2,467,125
Equities	**416,360**	565,073
	2,483,648	3,032,198
Less: Allowance for impairment	**(273)**	(872)
	2,483,375	3,031,326
Total other financial assets measured at fair value (A)	**3,879,200**	4,522,166
(iii) Other financial assets measured at amortised cost		
Debt securities	**10,087,894**	10,901,518
Less: Allowance for impairment	**(32,162)**	(26,365)
Total other financial assets measured at amortised cost (B)	**10,055,732**	10,875,153
Total other financial assets [(A)+(B)]	**13,934,932**	15,397,319

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balances within the U.A.E.	**2,507,240**	3,168,810
Balances outside the U.A.E.	**11,460,127**	12,255,746
	13,967,367	15,424,556
Less: Allowance for impairment	**(32,435)**	(27,237)
	13,934,932	15,397,319

6 Other financial assets (continued)

(c) During the period from 1 January 2020 to 31 March 2020, dividends received from financial assets measured at FVTOCI amounting to AED 14 million (period ended March 2019: AED 7 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(d) Other financial assets measured at FVTPL include AED 177 million (31 December 2019: AED 202 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and the fair value of these funds is based on the quoted market price.

(e) At 31 March 2020, certain financial assets measured at amortised cost included debt securities with an aggregate notional value of AED 814 million (fair value of AED 819 million) [31 December 2019: notional value of AED 1,097 million (fair value of AED 1,119 million)] which were collateralised as at that date against repurchase agreements with banks (“Repo”) of AED 833 million (31 December 2019: AED 1,089 million).

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

7 Loans and advances measured at amortised cost

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

	31 March 2020 (un-audited) AED’000	31 December 2019 (audited) AED’000
Loans	**58,798,516**	57,183,573
Overdrafts	**5,717,780**	5,825,415
Credit cards	**1,740,240**	1,887,551
Others	**708,211**	658,109
	66,964,747	65,554,648
Less: Allowance for impairment	**(4,126,683)**	(3,844,371)
	62,838,064	61,710,277

7 Loans and advances measured at amortised cost (continued)

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**10,181,111**	9,402,836
Construction	**6,473,077**	6,956,626
Trade	**12,895,237**	12,296,598
Transport and communication	**3,281,434**	3,265,643
Services	**6,507,957**	6,979,080
Financial institutions	**938,736**	831,689
Personal	**7,987,738**	8,176,471
Residential mortgage	**5,452,315**	5,505,912
Government and related enterprises	**13,247,142**	12,139,793
	66,964,747	65,554,648
Less: Allowance for impairment	**(4,126,683)**	(3,844,371)
	62,838,064	61,710,277

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**3,844,371**	3,480,583
Impairment allowance for the period / year	**211,707**	830,925
Interest in suspense	**68,182**	147,990
Exchange rate and other adjustments	**5,143**	31,244
Written off during the period / year	**(2,720)**	(646,371)
Balance at the end of the period / year	**4,126,683**	3,844,371

(d) The allowance for impairment includes a specific provision of AED 2,167 million for stage 3 loans of the Group as at 31 March 2020 (31 December 2019: AED 1,910 million).

8 Islamic financing and investment products measured at amortised cost

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Financing		
Murabaha	**9,740,650**	8,798,444
Ijara	**6,015,737**	5,824,623
	15,756,387	14,623,067
Investment		
Wakala	**289,974**	271,835
	289,974	271,835
Total	**16,046,361**	14,894,902
Less: Unearned income	**(408,616)**	(309,555)
Allowance for impairment	**(190,870)**	(128,590)
	15,446,875	14,456,757

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**790,907**	634,654
Construction	**4,141,759**	4,003,630
Trade	**2,126,728**	1,832,296
Transport and communication	**431,786**	312,759
Services	**3,419,450**	3,230,516
Financial institutions	**960,371**	1,079,112
Personal	**1,446,596**	1,231,533
Residential mortgage	**1,158,580**	1,158,522
Government and related enterprises	**1,570,184**	1,411,880
Total	**16,046,361**	14,894,902
Less: Unearned income	**(408,616)**	(309,555)
Allowance for impairment	**(190,870)**	(128,590)
	15,446,875	14,456,757

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

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**128,590**	139,056
Impairment allowance for the period / year	**58,211**	47,611
Profit in suspense	**4,069**	2,716
Exchange rate and other adjustments	**-**	(10,000)
Written off during the period / year	**-**	(50,793)
Balance at the end of the period / year	**190,870**	128,590

(d) The allowance for impairment includes a specific provision of AED 107 million for stage 3 Islamic financing and investment exposure of the Group as at 31 March 2020 (31 December 2019: AED 83 million).

9 Investment properties

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

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

The fair value of investment properties as at 31 December 2019 has been arrived at on the basis of valuations carried out by third party valuers and also are in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards. The valuers performing the valuation have necessary qualifications, skills, understanding and knowledge to undertake the valuation competently and possess recent market experience in the valuation of properties in the United Arab Emirates. The valuers are not related to the Group. The fair value of the Group's investment properties is based on observable market inputs, i.e. Level 2. Management has assessed the fair value of investment properties and the carrying value approximates the fair value as at 31 March 2020.

10 Property and equipment

During the period, the Group purchased AED 79 million (period ended 31 March 2019: AED 83 million) of various types of property and equipment and disposed of property and equipment with a nil net book value (period ended 31 March 2019: AED 1 million).

11 Deposits and balances due to banks

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

	31 March 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
Time	**11,100,727**	6,802,998
Demand	**1,932,234**	1,987,182
Overnight	**2,346,008**	2,394,316
	15,378,969	11,184,496

12 Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Current and other accounts	**34,778,105**	32,488,830
Saving accounts	**3,103,120**	2,885,960
Time deposits	**40,069,337**	41,064,782
	77,950,562	76,439,572

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Current and other accounts	**2,622,121**	2,554,782
Saving accounts	**117,615**	123,388
Time deposits	**7,805,667**	11,851,091
	10,545,403	14,529,261

14 Medium-term notes

	31 March 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
Medium term notes	**10,872,011**	11,838,757

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

	31March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Year		
2020	**2,716,918**	4,370,545
2021	**1,604,007**	1,624,111
2022	**1,878,041**	1,780,371
2023	**349,865**	250,557
2024	**3,934,960**	3,775,725
2025	**351,454**	-
2029	**36,766**	37,448
	10,872,011	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 three month period ended 31 March 2020, new medium-term notes of AED 0.7 billion were issued and AED 1.7 billion of medium-term notes were redeemed.

15 Issued and paid up capital

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

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

16 Non-controlling interests

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**710,348**	621,585
Initial application of IFRS 16	**-**	(49)
Profit for the period / year	**20,864**	70,948
Other comprehensive (loss) / income for the period / year	**(38,818)**	17,864
Balance at the end of the period / year	**692,394**	710,348

17 General and administrative expenses

General and administrative expenses include senior management remuneration and director fees of AED 11 million for the three month period ended 31 March 2020 (three month period ended 31 March 2019 : AED 41 million).

18 Earnings per share

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

	For the three month period ended	
	31 March 2020 (un-audited)	31 March 2019 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	**450,294**	628,160
Weighted average number of shares in issue	**177,530,823**	177,530,823
Basic earnings per share (AED)	**2.54**	3.54

There were no potentially dilutive shares as of 31 March 2020 and 31 March 2019.

19 Cash and cash equivalents

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000	31 March 2019 (un-audited) AED'000
Cash on hand	**727,323**	908,016	700,248
Current accounts and other balances with central banks	**8,842,789**	10,508,330	4,446,985
Certificates of deposit maturing within 3 months	**-**	1,050,000	1,150,000
Deposits and balances due from banks maturing within 3 months	**11,314,979**	10,300,461	24,496,588
Balances due to banks and financial institutions maturing within 3 months	**(10,205,319)**	(7,046,618)	(11,198,893)
Repurchase agreements with banks maturing within 3 months	**(114,405)**	(377,572)	(1,262,318)
	10,565,367	15,342,617	18,332,610

20 Contingent liabilities

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Guarantees	**44,916,507**	43,922,209
Letters of credit	**9,641,960**	7,845,546
	54,558,467	51,767,755

21 Derivative financial instruments

31 March 2020 (un-audited)

	Positive fair value AED'000	**Negative fair value** AED'000	**Notional Amount** AED'000
Held for trading:			
Forward foreign exchange contracts	**450,792**	**431,869**	**60,926,525**
Foreign exchange options (bought)	**-**	**59,570**	**3,210,915**
Foreign exchange options (sold)	**50,240**	**-**	**3,077,158**
Interest rate swaps	**849,800**	**849,796**	**18,612,828**
Credit default swaps	**-**	**-**	**-**
Futures contracts purchased (Customer)	**-**	**16,491**	**162,207**
Futures contracts sold (Customer)	**5,279**	**-**	**101,418**
Futures contracts sold (Bank)	**16,491**	**12**	**177,735**
Futures contracts purchased (Bank)	**372**	**5,279**	**200,651**
	1,372,988	**1,363,017**	**86,469,437**
Held as fair value and cash flow hedges:			
Cross currency swaps	**59,029**	**47,226**	**1,811,401**
	1,432,017	**1,410,243**	**88,280,838**

31 March 2020 (un-audited)

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Other assets				
Positive fair value of derivatives	**-**	**1,432,017**	**-**	**1,432,017**
Other liabilities				
Negative fair value of derivatives	**-**	**1,410,243**	**-**	**1,410,243**

21 Derivative financial instruments (continued)

31 December 2019 (audited)

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

31 December 2019 (audited)

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

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

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

22 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim financial information for the three month period ended 31 March 2020 and 2019 respectively.

23 Related party transactions

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

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

	31 March 2020 AED'000 (un-audited)	31 December 2019 AED'000 (audited)
Balances with major shareholders		
Loans and advances	**3,363,662**	4,001,254
Deposits/ financial instruments under lien	**776,876**	801,542
Letter of credit and guarantees	**1,530,116**	1,568,804
Balances with directors and key management personnel		
Loans and advances	**80,771**	83,227
Deposits/ financial instruments under lien	**163,843**	189,052
Letter of credit and guarantees	**106,622**	106,747

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

	31 March 2020 AED'000 (un-audited)	31 March 2019 AED'000 (un-audited)
Transactions with major shareholders		
Interest income	**40,193**	48,983
Interest expense	**70**	826
Other income	**6,225**	16,548
Transactions with directors and key management personnel		
Interest income	**983**	1,018
Interest expense	**231**	480
Other income	**258**	165

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

24 Segmental information

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

Reportable segments

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

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

1. The Domestic Corporate segment comprises of corporate and commercial banking customers in the U.A.E. trade finance, contracting finance, project finance, investment banking, corporate advisory, cash management, and Islamic financing are the major products and / or business lines making up this segment.

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

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

4. The International Banking segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection and risk participations.

24 Segmental information (continued)

Reportable segments (continued)

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

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

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 31 March 2020
(continued)

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2020 to 31 March 2020 (un-audited)						
	Domestic corporate AED'000	**Domestic retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**240,302**	**254,270**	**2,801**	**183,655**	**20,557**	**79,982**	**781,567**
Other income, net	**126,186**	**135,074**	**230,323**	**127,107**	**117,218**	**5,565**	**741,473**
Total operating income	**366,488**	**389,344**	**233,124**	**310,762**	**137,775**	**85,547**	**1,523,040**
General and administrative expenses							**(632,194)**
Operating profit before impairment							**890,846**
Allowances for impairment							**(408,678)**
Profit before taxes							**482,168**
Tax expense							**(11,010)**
Profit for the period							**471,158**
Attributed to:							
Owners of the Parent							**450,294**
Non-controlling interests							**20,864**
							471,158
	31 March 2020 (un-audited)						
Segment Assets	**51,633,042**	**15,042,244**	**21,486,571**	**40,481,667**	**6,980,320**	**2,6936,795**	**162,560,639**
Segment Liabilities	**44,780,057**	**25,343,621**	**22,482,874**	**25,059,057**	**5,252,076**	**17,949,664**	**140,867,349**

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2019 to 31 March 2019 (un-audited)						
	Domestic corporate AED'000	**Domestic retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	279,391	259,968	93,877	176,390	17,742	108,774	936,142
Other income, net	137,500	134,891	98,061	127,482	114,463	20,866	633,263
Total operating income	416,891	394,859	191,938	303,872	132,205	129,640	1,569,405
General and administrative expenses							(651,310)
Operating profit before impairment							918,095
Allowances for impairment							(261,111)
Profit before taxes							656,984
Tax expense							(7,788)
Profit for the period							649,196
Attributed to:							
Owners of the Parent							628,160
Non-controlling interests							21,036
							649,196
	31 December 2019 (audited)						
Segment Assets	48,861,597	15,722,653	22,645,325	41,867,588	7,039,901	23,293,919	159,430,983
Segment Liabilities	46,810,166	24,830,730	22,594,704	22,972,370	5,170,031	14,810,052	137,188,053

25 Fair value of financial instruments

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

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

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

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

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

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

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

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

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

25 Fair value of financial instruments (continued)

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

Other financial assets	**Fair value as at**						
	31 March 2020		31 December 2019	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited)		(audited)				
	AED'000		AED'000				
Other financial assets measured at FVTPL							
Quoted debt investments	**41,944**		196,516	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted equity investments	**8,550**		14,990	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**869,091**		679,779	Level 2	Based on the recent similar transaction in market	None	Not applicable
Unquoted debt investments	**1,646**		-	Level 3	Based on discounted cash flow model	Interest rate	Change in interest rate will impact the value of the bond.
Mutual and other funds	**474,344**		599,310	Level 2	Quoted prices in secondary market.	None	Not applicable
Unquoted equity investments	**250**		245	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,395,825		1,490,840				

25 Fair value of financial instruments (continued)

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

Other financial assets	**Fair value as at**						
	31 March 2020		31 December 2019	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited)		(audited)				
	AED'000		AED'000				
Other financial assets measured at FVTOCI							
Quoted equity investments	**355,311**		501,480	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**491,282**		561,693	Level 3	Based on the recent similar transaction in market	None	Not applicable
Quoted debt investments	**1,575,733**		1,904,560	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted equity investments	**61,049**		63,593	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	2,483,375		3,031,326				
	3,879,200		4,522,166				

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

25 Fair value of financial instruments (continued)

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**245**	55,315
Purchases	**1,646**	-
Change in fair value	**5**	(55,070)
Balance at the end of the period / year	**1,896**	245

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**625,286**	192,869
Purchases	**-**	563,842
Disposals	**(2,588)**	(153,087)
Change in fair value	**(70,367)**	21,662
Balance at the end of the period / year	**552,331**	625,286

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

26 Capital adequacy ratio

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

The Bank must comply with the following minimum requirement:

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

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

	31 March 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Capital base		
Tier 1 capital	**20,962,900**	20,774,283
Tier 2 capital	**1,614,562**	1,549,604
Total capital base (A)	**22,577,462**	22,323,887
Risk-weighted assets		
Credit risk	**129,164,926**	123,968,330
Market risk	**2,145,951**	2,770,836
Operational risk	**10,424,335**	10,424,335
Total risk-weighted assets (B)	**141,735,212**	137,163,501
Capital adequacy ratio (%) [(A)/(B) x 100]	**15.93%**	16.28%

27 Subsequents events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the condensed consolidated interim financial information as at and for the three month period ended 31 March 2020.

28 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information on pages 2 to 51 were approved by the Board of Directors on 16 April 2020.