MASHREQBANK PSC GROUP

Report and consolidated financial statements for the year ended 31 December 2015

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

MASHREQBANK PSC GROUP

Report and consolidated financial statements for the year ended 31 December 2015

Contents

Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2015.

Incorporation and registered offices

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

Principal activities

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

Financial position and results

The financial position and results of the Group for the year ended 31 December 2015 are set out in the accompanying consolidated financial statements.

Dividend

The Directors recommend the distribution of a 40% cash dividend in respect of the year ended 31 December 2015, subject to the Central Bank's approval.

Directors

The following were the Directors of the Bank for the year ended 31 December 2015:

Chairman:	Abdulla Bin Ahmad Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Director & Chief Executive Officer:	H.E. Abdul Aziz Abdulla Al Ghurair
Directors:	Rashed Saif Saeed Al Jarwan
	Sultan Abdulla Ahmed Al Ghurair
	Rashed Saif Ahmed Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2015 have been audited by Deloitte & Touche (M.E.) and, being eligible, offer themselves for reappointment.

By order of the Board of Directors

Abdulla Bin Ahmad Al Ghurair
Chairman
27 January 2016

Deloitte.

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Independent auditor's report to the shareholders of Mashreqbank psc

Report on the financial statements

We have audited the accompanying consolidated financial statements of **Mashreqbank psc** (the "Bank"), a Public Shareholding Company, and **its Subsidiaries** (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **Mashreqbank psc and its subsidiaries** as at 31 December 2015 and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

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

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

iii) The Group has maintained proper books of account;

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

v) As disclosed in Note 7 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2015;

vi) Note 37 to the consolidated financial statements of the Group discloses material related party transactions and the terms under which they were conducted;

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

vii) Note 31 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2015.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
27 January 2016

Consolidated statement of financial position
at 31 December 2015

	Notes	2015 AED'000	2015 USD'000 Equivalent	2014 AED'000	2014 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**19,423,463**	**5,288,174**	15,159,258	4,127,214
Deposits and balances due from banks	6	**15,009,990**	**4,086,575**	14,211,256	3,869,114
Other financial assets measured at fair value	7	**3,924,965**	**1,068,599**	3,209,334	873,764
Loans and advances measured at amortised cost	8	**53,555,070**	**14,580,743**	52,246,614	14,224,507
Islamic financing and investment products measured at amortised cost	9	**6,610,606**	**1,799,784**	5,799,094	1,578,844
Other financial assets measured at amortised cost	7	**7,993,072**	**2,176,170**	7,579,700	2,063,626
Other assets	10	**6,928,970**	**1,886,461**	6,011,997	1,636,808
Goodwill	11	**18,150**	**4,940**	26,588	7,239
Investment properties	12	**527,525**	**143,622**	490,317	133,492
Property and equipment	13	**1,165,370**	**317,280**	1,106,120	301,149
Total assets		**115,157,181**	**31,352,348**	105,840,278	28,815,757
LIABILITIES AND EQUITY					
Liabilities					
Deposits and balances due to banks	14	**9,231,913**	**2,513,453**	8,224,533	2,239,187
Repurchase agreements with banks	15	**734,564**	**199,990**	623,036	169,626
Customers' deposits	16	**65,243,790**	**17,763,079**	63,305,377	17,235,333
Islamic customers' deposits	17	**8,391,490**	**2,284,642**	5,182,766	1,411,044
Insurance and life assurance funds	18	**1,559,704**	**424,640**	1,655,139	450,623
Other liabilities	19	**7,404,136**	**2,015,828**	5,922,634	1,612,478
Medium-term loans	20	**4,105,856**	**1,117,848**	4,008,243	1,091,272
Total liabilities		**96,671,453**	**26,319,480**	88,921,728	24,209,563
Equity					
Capital and reserves					
Issued and paid up capital	21(a)	**1,775,308**	**483,340**	1,690,770	460,324
Statutory and legal reserves	21(b)	**896,595**	**244,104**	852,582	232,121
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment	21(d)	**(60,610)**	**(16,501)**	(53,315)	(14,515)
Investments revaluation reserve	21(e)	**(276,416)**	**(75,256)**	(152,150)	(41,424)
Cash flow hedging reserve	21(f)	**9,221**	**2,510**	-	-
Retained earnings		**15,112,512**	**4,114,487**	13,512,995	3,679,008
Equity attributable to owners of the Parent		**17,768,610**	**4,837,628**	16,162,882	4,400,458
Non-controlling interests	22	**717,118**	**195,240**	755,668	205,736
Total equity		**18,485,728**	**5,032,868**	16,918,550	4,606,194
Total liabilities and equity		**115,157,181**	**31,352,348**	105,840,278	28,815,757

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

Abdulla Bin Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Consolidated income statement for the year ended 31 December 2015

	Notes	2015 AED'000	2015 USD'000 Equivalent	2014 AED'000	2014 USD'000 Equivalent
Interest income	24	**4,101,946**	**1,116,784**	3,782,541	1,029,823
Income from Islamic financing and investment products	25	**258,293**	**70,322**	242,692	66,075
Total interest income and income from Islamic financing and investment products		**4,360,239**	**1,187,106**	4,025,233	1,095,898
Interest expense	26	**(1,033,192)**	**(281,294)**	(934,226)	(254,350)
Distribution to depositors – Islamic products	27	**(65,258)**	**(17,767)**	(51,184)	(13,935)
Net interest income and income from Islamic products net of distribution to depositors		**3,261,789**	**888,045**	3,039,823	827,613
Fee and commission income	28	**3,024,587**	**823,465**	3,004,431	817,977
Fee and commission expenses	28	**(1,300,179)**	**(353,983)**	(1,295,810)	(352,793)
Net fee and commission income		**1,724,408**	**469,482**	1,708,621	465,184
Net investment income	29	**169,106**	**46,040**	187,969	51,176
Other income, net	30	**822,202**	**223,850**	908,466	247,336
Operating income		**5,977,505**	**1,627,417**	5,844,879	1,591,309
General and administrative expenses	31	**(2,472,527)**	**(673,163)**	(2,209,627)	(601,586)
Allowances for impairment, net	32	**(999,805)**	**(272,204)**	(1,074,717)	(292,599)
Profit before taxes		**2,505,173**	**682,050**	2,560,535	697,124
Overseas income tax expense		**(70,528)**	**(19,202)**	(74,265)	(20,219)
Profit for the year		**2,434,645**	**662,848**	2,486,270	676,905
Attributed to:					
Owners of the Parent		**2,402,107**	**653,990**	2,401,259	653,760
Non-controlling interests		**32,538**	**8,858**	85,011	23,145
		2,434,645	**662,848**	2,486,270	676,905
Earnings per share	33	**AED 13.53**	**USD 3.68**	AED 13.53	USD 3.68

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

Consolidated statement of comprehensive income for the year ended 31 December 2015

	2015		2014	
	AED'000	**USD'000 Equivalent**	AED'000	USD'000 Equivalent
Profit for the year	**2,434,645**	**662,848**	2,486,270	676,905
Other comprehensive (loss)/income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net [Note 7(l)]	**(178,066)**	**(48,480)**	5,962	1,623
Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising on translating the foreign operations	**(743)**	**(202)**	(3,991)	(1,087)
Loss on hedging instruments designated in hedges of the net assets of foreign operations	**(6,552)**	**(1,784)**	(7,211)	(1,963)
Cash flow hedges - fair value gain arising during the year [Note 21(f)]	**9,221**	**2,510**	-	-
Total other comprehensive loss for the year	**(176,140)**	**(47,956)**	(5,240)	(1,427)
Total comprehensive income for the year	**2,258,505**	**614,892**	2,481,030	675,478
Attributed to:				
Owners of the Parent	**2,282,036**	**621,299**	2,392,209	651,296
Non-controlling interests	**(23,531)**	**(6,407)**	88,821	24,182
	2,258,505	**614,892**	2,481,030	675,478

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

Consolidated statement of changes in equity for the year ended 31 December 2015

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Cash flow hedging 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 2014	1,690,770	850,172	312,000	(42,113)	(157,309)	-	11,793,461	14,446,981	673,547	15,120,528
Profit for the year	-	-	-	-	-	-	2,401,259	2,401,259	85,011	2,486,270
Other comprehensive income/(loss) for the year	-	-	-	(11,202)	2,152	-	-	(9,050)	3,810	(5,240)
Total comprehensive income/(loss) for the year	-	-	-	(11,202)	2,152	-	2,401,259	2,392,209	88,821	2,481,030
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	3,007	-	(3,007)	-	-	-
Transfer to statutory and legal reserves	-	2,410	-	-	-	-	(2,410)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(676,308)	(676,308)	(16,789)	(693,097)
Additional contribution attributable to the new non-controlling interest shareholders (Note 22)	-	-	-	-	-	-	-	-	10,089	10,089
Balance at 31 December 2014	1,690,770	852,582	312,000	(53,315)	(152,150)	-	13,512,995	16,162,882	755,668	16,918,550
Profit for the year	-	-	-	-	-	-	**2,402,107**	**2,402,107**	**32,538**	**2,434,645**
Other comprehensive income/(loss) for the year	-	-	-	**(7,295)**	**(121,997)**	**9,221**	-	**(120,071)**	**(56,069)**	**(176,140)**
Total comprehensive income/(loss) for the year	-	-	-	**(7,295)**	**(121,997)**	**9,221**	**2,402,107**	**2,282,036**	**(23,531)**	**2,258,505**
Issue of bonus shares [Note 21(a)]	**84,538**	-	-	-	-	-	**(84,538)**	-	-	-
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	**(2,269)**	-	**2,269**	-	-	-
Transfer to statutory and legal reserves	-	**44,013**	-	-	-	-	**(44,013)**	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	**(676,308)**	**(676,308)**	**(18,129)**	**(694,437)**
Additional contribution attributable to the new non-controlling interest shareholders (Note 22)	-	-	-	-	-	-	-	-	**3,110**	**3,110**
Balance at 31 December 2015	**1,775,308**	**896,595**	**312,000**	**(60,610)**	**(276,416)**	**9,221**	**15,112,512**	**17,768,610**	**717,118**	**18,485,728**

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

Consolidated statement of cash flows for the year ended 31 December 2015

	Notes	2015 AED'000	2015 USD'000 Equivalent	2014 AED'000	2014 USD'000 Equivalent
Cash flows from operating activities					
Profit for the year		**2,434,645**	**662,848**	2,486,270	676,905
Adjustments for:					
Depreciation of property and equipment	13	**148,637**	**40,467**	147,185	40,072
Allowances for impairment, net	32	**999,805**	**272,204**	1,074,717	292,599
Loss/(gain) on disposal of property and equipment	30	**4,959**	**1,350**	(24,414)	(6,647)
Gain from disposal of investment properties	30	**-**	**-**	(16,807)	(4,576)
Fair value adjustments of other financial assets measured at FVTPL	29	**41,291**	**11,242**	(33,174)	(9,032)
Fair value adjustments of investment properties	30	**(34,196)**	**(9,310)**	(82,406)	(22,436)
Net realised gain from sale of other financial assets measured at FVTPL	29	**(33,305)**	**(9,068)**	(36,407)	(9,912)
Dividend income from financial assets measured at FVTOCI	29	**(26,088)**	**(7,103)**	(36,116)	(9,833)
Net realised loss from sale of other financial assets measured at amortised cost	29	**10,345**	**2,816**	4,048	1,102
Fair value adjustment – derivatives	30	**(7,070)**	**(1,925)**	(4,328)	(1,178)
Operating cash flows before changes in operating assets and liabilities		**3,539,023**	**963,521**	3,478,568	947,064
Increase in deposits with central banks		**(1,674,668)**	**(455,940)**	(2,306,909)	(628,072)
Increase in deposits and balances due from banks maturing after three months		**(3,333)**	**(907)**	(1,378,924)	(375,422)
Increase in loans and advances measured at amortised cost		**(2,282,576)**	**(621,447)**	(8,967,286)	(2,441,406)
(Increase)/decrease in Islamic financing and investment products measured at amortised cost		**(832,666)**	**(226,699)**	335,396	91,314
Increase in other assets		**(939,587)**	**(255,809)**	(136,528)	(37,171)
Increase in other financial assets carried at FVTPL		**(856,247)**	**(233,119)**	(503,142)	(136,984)
Increase/(decrease) in repurchase agreements with banks		**111,528**	**30,364**	(422,060)	(114,909)
Increase in customers' deposits		**1,938,413**	**527,747**	9,147,229	2,490,397
Increase in Islamic customers' deposits		**3,208,724**	**873,598**	737,235	200,717
Increase in medium-term loans (not qualified as Tier 2 capital)		**97,613**	**26,576**	1,470,320	400,305
Increase in deposits and balances due to banks		**1,007,380**	**274,266**	3,143,484	855,836
(Decrease)/increase in insurance and life assurance funds		**(95,435)**	**(25,983)**	228,140	62,113
Increase in other liabilities		**1,481,502**	**403,349**	82,994	22,596
Net cash generated from operating activities		**4,699,671**	**1,279,517**	4,908,517	1,336,378

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

Consolidated statement of cash flows
for the year ended 31 December 2015 (continued)

	Notes	2015 AED'000	2015 USD'000 Equivalent	2014 AED'000	2014 USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	**(231,119)**	**(62,924)**	(191,286)	(52,079)
Proceeds from sale of property and equipment		**18,273**	**4,975**	63,682	17,338
Purchase of investment properties	12	**(3,012)**	**(820)**	(6,415)	(1,746)
Net increase in other financial assets measured at amortised cost		**(389,865)**	**(106,143)**	(2,250,058)	(612,594)
Net increase in other financial assets measured at FVTOCI		**(45,436)**	**(12,370)**	(41,339)	(11,254)
Dividend income from other financial assets measured at FVTOCI	29	**26,088**	**7,103**	36,116	9,833
Proceeds from disposal of investment properties		**-**	**-**	88,270	24,032
Net cash used in investing activities		**(625,071)**	**(170,179)**	(2,301,030)	(626,470)
Cash flows from financing activities					
Dividend paid		**(694,437)**	**(189,064)**	(693,097)	(188,701)
Additional contribution by non-controlling interest	22	**3,110**	**847**	10,089	2,747
Net cash used in financing activities		**(691,327)**	**(188,217)**	(683,008)	(185,954)
Net increase in cash and cash equivalents		**3,383,273**	**921,121**	1,924,479	523,954
Net foreign exchange difference		**1,926**	**524**	(11,202)	(3,050)
Cash and cash equivalents at 1 January		**16,492,532**	**4,490,207**	14,579,255	3,969,303
Cash and cash equivalents at 31 December	35	**19,877,731**	**5,411,852**	16,492,532	4,490,207

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

Notes to the consolidated financial statements for the year ended 31 December 2015

1 General information

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

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

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

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

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2010-2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011-2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 *Employee Benefits* to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

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

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

New and revised IFRS	Effective for annual periods beginning on or after
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants	1 January 2016
Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

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 (continued)

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle covering amendments to IFRS 5, IFRS 7 and IAS 19.	1 January 2016
Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	1 January 2018
IFRS 15 Revenue from Contracts with Customers: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

3 Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. requirements as related to the impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015. The Bank has twelve months from the effective date of the Companies Law to comply with its provisions (the "transitional provisions") and the Bank has availed the transitional provisions.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period.

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

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 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.

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

The principal accounting policies are set out below:

3.3 Basis of consolidation

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3 Summary of significant accounting policies (continued)

3.4 Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit and loss

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3 Summary of significant accounting policies (continued)

3.4 Business combinations (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.5 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.4 above) less accumulated impairment losses if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

3.6 Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for other financial assets measured at fair value through profit and loss (FVTPL), are recognised within 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method. Interest income from other financial assets measured at FVTPL is recognised within 'net investment income' in the consolidated income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

Interest income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Recoveries in respect of loans and advances previously provided for are accounted for on a cash receipt basis.

Income from Islamic financing and investments products

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

Fee and commission income and expenses

Fee and commission income and expenses are accounted for on the date the transaction arises.

Dividend revenue

Dividend revenue from investments is recognised in the consolidated income statement when the Group's right to receive payment has been established.

Insurance contracts revenue and insurance commission income

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

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

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

Gain or loss from redemption of medium-term loans

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

Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.7 below.

Rendering of services

Consultancy and project services revenue represents the total amount of services rendered and work completed and invoiced, net of discount.

3 Summary of significant accounting policies (continued)

3.7 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8 Foreign currencies

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

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

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

Exchange differences are recognised in the consolidated income statement in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated income statement on disposal of the net investment.

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

On the disposal of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank is reclassified to the consolidated income statement.

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

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

3.9 Borrowing costs

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

3.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

	Years
Properties for own use	20 – 25
Furniture, fixtures, equipment and vehicles	4 - 10
Improvements to freehold properties and others	5 - 10

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

3 Summary of significant accounting policies (continued)

3.10 Property and equipment (continued)

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

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work in progress is carried at cost, less any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

3.11 Investment property

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. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement 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 consolidated income statement in the period in which the property is derecognised.

3.12 Impairment of tangible assets

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated income statement.

3.14.1 Financial assets

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

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.

<u>Classification of financial assets</u>

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'.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

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:

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

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments (other than those financial assets designated as FVTPL) are measured subsequently at amortised cost. Interest income is recognised in the consolidated income statement.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Financial assets at fair value through other comprehensive income (FVTOCI) (continued)

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (as described above).

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 43 to the consolidated financial statements.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the net gain or loss described above.

Foreign exchange gains and losses

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

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated income statement; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in consolidated statement of comprehensive income.

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 income statement.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

(i) Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Group's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loans carrying value and its present value calculated as above.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and less than 120 days and a provision of 50% of loan balance is made when it is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral held.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

3.14.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are 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 instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

Financial liabilities at FVTPL

Financial liabilities are classified as 'at FVTPL' when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired for the purpose of repurchasing in the near term; or
- on initial recognition it is part of the portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit making; or
- it is a derivative that is not designated and effective as a hedging instrument

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of assets or financial liability or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on the remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated income statement depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

<u>Embedded derivatives</u>

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Hedges of net investments in foreign operations

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

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

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.5 Reinsurance contracts

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

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

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

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

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for;

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

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(b) Additional reserve (continued)

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

(c) Life assurance fund

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

(d) Unit linked liabilities

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

(e) Outstanding claims

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

3.18.7 Policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new insurance contracts and renewing existing insurance contracts are recognised as expenses when incurred.

Acquisition costs incurred in securing long-term investments contracts are deferred and amortised over a period of four years.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.8 Salvage and subrogation reimbursements

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

3.18.9 Liability adequacy test

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

3.18.10 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, insurance contract holders and reinsurance companies.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated income statement.

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Ijara

An agreement whereby the Group acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property concluding with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Group and a customer whereby the Group provides a certain amount of funds, which the customer then invests in a specific enterprise or activity against a specific share in the profit. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Accounting policy

Islamic financing and 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 flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

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

Ijara

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

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

Mudaraba

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

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

4.1 Impairment of financial assets measured at amortised cost

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Individually assessed loans and advances

Impairment losses for individually assessed loans and advances are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

- The customer's aggregate borrowings.
- The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
- The value of the collateral and the probability of successful repossession.
- The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

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

4.1 Impairment of financial assets measured at amortised cost (continued)

Collectively assessed loans and advances

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the UAE.

Collectively assessed allowances are also made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and less than 120 days, and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral.

4.2 Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4.4 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

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

4.4 Derivative financial instruments (continued)

(a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

4.5 Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

4.6 The ultimate liability arising from claims made under insurance contracts

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

4.7 Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

4.8 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks as at 31 December is as follows:

	2015 AED'000	2014 AED'000
Cash on hand	**845,591**	1,077,927
Balances with central banks:		
Current accounts and other balances	**8,203,244**	5,381,371
Statutory deposits	**6,674,628**	5,799,960
Certificates of deposit	**3,700,000**	2,900,000
	19,423,463	15,159,258

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

	2015 AED'000	2014 AED'000
Balances within the U.A.E.	**10,876,322**	9,437,628
Balances outside the U.A.E.	**8,547,141**	5,721,630
	19,423,463	15,159,258

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.40% (2014: 0.40%) per annum.

6 Deposits and balances due from banks

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

	2015 AED'000	2014 AED'000
Demand	**2,011,629**	1,182,486
Overnight	**192,997**	307,292
Time	**12,805,486**	12,745,922
	15,010,112	14,235,700
Less: Allowance for impairment	**(122)**	(24,444)
	15,009,990	14,211,256

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

	2015 AED'000	2014 AED'000
Banks within the U.A.E.	**1,451,658**	1,030,341
Banks outside the U.A.E.	**13,558,454**	13,205,359
	15,010,112	14,235,700
Less: Allowance for impairment	**(122)**	(24,444)
	15,009,990	14,211,256

(c) Allowance for impairment movement

	2015 AED'000	2014 AED'000
At 1 January	**24,444**	97,166
Charged during the year (Note 32)	**261**	5,655
Interest in suspense	**1,790**	574
Recoveries during the year (Note 32)	**-**	(45,492)
Written off during the year	**(26,373)**	(33,459)
At 31 December	**122**	24,444

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

7 Other financial assets

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

		2015 AED'000	2014 AED'000
Other financial assets measured at fair value			
(i) Financial assets measured at fair value through profit and loss (FVTPL)			
Debt securities			
Corporate bonds and treasury bills		**2,624,985**	1,625,167
Sukuk		**36,027**	46,164
		2,661,012	1,671,331
Equities			
Quoted		**16,548**	7,478
Unquoted		**508**	551
		17,056	8,029
Mutual and other funds		**589,742**	740,189
		3,267,810	2,419,549
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)			
Equities			
Quoted		**402,783**	511,475
Unquoted		**216,650**	241,238
		619,433	752,713
Mutual and other funds [Note 7(g)]		**37,722**	37,072
		657,155	789,785
Total other financial assets measured at fair value	**(A)**	**3,924,965**	3,209,334
(iii) Financial assets measured at amortised cost			
Debt securities			
Bonds		**7,141,930**	6,843,319
Sukuk		**963,140**	882,231
Less: Allowance for impairment		**(111,998)**	(145,850)
Total other financial assets measured at amortised cost	**(B)**	**7,993,072**	7,579,700
Total other financial assets [(A) +(B)]		**11,918,037**	10,789,034

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

7 Other financial assets (continued)

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

	2015 AED'000	2014 AED'000
Balances within the U.A.E.	**3,338,488**	2,835,784
Balances outside the U.A.E.	**8,579,549**	7,953,250
	11,918,037	10,789,034

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

	2015 AED'000	2014 AED'000
Government and Public Sector	**5,323,051**	4,287,546
Commercial and Business	**750,371**	384,030
Financial Institutions	**5,039,235**	5,650,640
Other	**805,380**	466,818
	11,918,037	10,789,034

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

	2015 AED'000	2014 AED'000
At 1 January	**145,850**	94,400
Impairment allowance for the year (Note 32)	**-**	51,450
Reversal during the year (Note 32)	**(33,852)**	-
At 31 December	**111,998**	145,850

(e) The fair value of other financial assets measured at amortised cost amounted to AED 7.92 billion as of 31 December 2015 (2014: AED 7.62 billion) (Note 43).

(f) The above other financial assets measured at amortised costs include debt securities aggregating to notional value of AED 750 million (fair value of AED 766 million) [2014: AED 408 million (fair value of AED 433 million)] which were collateralised against repurchase agreements with banks ("Repo") (Note 15).

(g) Other financial assets measured at FVTOCI include AED 38 million (2014: AED 37 million) investment in Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and the fair value of the fund is based on quoted market prices.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

7 Other financial assets (continued)

(h) Other financial assets measured at FVTPL include AED 245 million (2014: AED 322 million) which represents investments in Makaseb Income Fund, Mashreq Al Islami Income Fund and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity and coupon rate. The fair value of these investments is based on quoted market prices.

(i) As of 31 December 2015, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(j) During the year ended 31 December 2015, dividends received from financial assets measured at FVTOCI amounting to AED 26 million (2014: AED 36 million) were recognised as investment income in the consolidated income statement (Note 29).

(k) During the year ended 31 December 2015, change in fair value of other financial assets measured at FVTPL amounted to a loss of AED 41 million (2014: a profit of AED 33 million) and was recongnised as investment loss in the consolidated income statement (Note 29).

(l) During the year ended 31 December 2015, change in fair value of financial assets measured at FVTOCI amounted to a loss of AED 178 million (2014: a profit of AED 6 million) and was recognised in the consolidated statement of comprehensive income.

(m) During the year ended 31 December 2015, the Group purchased and disposed equity shares amounted to AED 206 million and AED 150 million respectively.

8 Loans and advances measured at amortised cost

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

	2015 AED'000	2014 AED'000
Loans	**48,201,075**	47,483,184
Overdrafts	**4,563,342**	4,764,148
Credit cards	**3,167,485**	2,827,635
Other	**389,337**	308,240
	56,321,239	55,383,207
Less: Allowance for impairment	**(2,766,169)**	(3,136,593)
	53,555,070	52,246,614

8 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:

	2015 AED'000	2014 AED'000
Manufacturing	**3,207,415**	4,161,144
Construction	**3,849,313**	3,386,984
Trade	**11,102,269**	11,992,623
Transport and communication	**4,282,487**	3,420,035
Services	**4,820,698**	6,782,290
Financial institutions	**660,483**	994,615
Personal	**16,604,872**	15,549,360
Government and related enterprises	**11,502,917**	8,984,812
Other	**290,785**	111,344
	56,321,239	55,383,207
Less: Allowance for impairment	**(2,766,169)**	(3,136,593)
	53,555,070	52,246,614

(c) As at 31 December 2015, AED Nil (2014: AED 1.12 billion) of the loans and advances were collateralised under repurchase agreements with banks ("Repo") (Note 15).

(d) In certain cases, the Group continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated income statement. The value of loans and advances on which interest is not taken to consolidated income statement, including fully provided accounts, amounted to AED 1.95 billion at 31 December 2015 (2014: AED 2.64 billion) (Note 43).

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

	2015 AED'000	2014 AED'000
At 1 January	**3,136,593**	3,057,721
Impairment allowance for the year (Note 32)	**789,214**	842,635
Interest suspended	**80,395**	92,223
Recoveries during the year (Note 32)	**(5,215)**	(63,491)
Written off during the year	**(1,234,818)**	(792,495)
At 31 December	**2,766,169**	3,136,593

8 Loans and advances measured at amortised cost (continued)

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

9 Islamic financing and investment products measured at amortised cost

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

	2015 AED'000	2014 AED'000
Financing		
Murabaha	**3,907,356**	3,599,799
Ijara	**1,672,605**	1,432,430
	5,579,961	5,032,229
Investment		
Mudaraba	**182,813**	217,100
Wakala	**1,112,519**	831,539
	1,295,332	1,048,639
Total	**6,875,293**	6,080,868
Less: Unearned income	**(216,056)**	(233,760)
Allowance for impairment	**(48,631)**	(48,014)
	6,610,606	5,799,094

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

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

	2015 AED'000	2014 AED'000
Manufacturing	**603,036**	644,672
Construction	**1,263,384**	1,206,620
Trade	**1,229,460**	1,189,001
Transport and communication	**778,107**	104,632
Services	**840,012**	1,060,913
Financial institutions	**23,576**	13,308
Personal	**1,607,374**	1,295,420
Government and related enterprises	**530,344**	566,302
Total	**6,875,293**	6,080,868
Less: Unearned income	**(216,056)**	(233,760)
Allowance for impairment	**(48,631)**	(48,014)
	6,610,606	5,799,094

(c) The value of Islamic financing and investment products on which profit is not taken to consolidated income statement, including fully provided accounts, amounted to AED 62 million as at 31 December 2015 (2014: AED 83 million) (Note 43).

(d) *Allowance for impairment movement*:

	2015 AED'000	2014 AED'000
At 1 January	**48,014**	39,192
(Reversal of impairment)/impairment allowance during the year, net (Note 32)	**(382)**	7,188
Profit suspended	**999**	1,634
At 31 December	**48,631**	48,014

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

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

10 Other assets

	2015 AED'000	2014 AED'000
Interest receivable	**184,702**	137,827
Property acquired in settlement of debts*	**218,722**	230,366
Prepayments	**109,906**	79,940
Acceptances**	**3,499,817**	2,417,525
Positive fair value of derivatives (Note 41)	**879,233**	1,073,437
Insurance related receivables	**1,351,272**	1,269,546
Credit card interchange receivables	**84,718**	63,154
Taxes paid in advance	**74,007**	80,075
Other	**526,593**	660,127
	6,928,970	6,011,997

* As of 31 December 2015 property acquired in settlement of debts includes land with a carrying amount of AED 215 million (2014: AED 226 million) which is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

** Acceptances are recognised as a financial liability (Note 19) in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

11 Goodwill

During 2012, Oman Insurance Company P.S.C, a subsidiary of the Bank acquired a 51% interest in Dubai Group Sigorta A.Ş, a company established and registered in Istanbul, Turkey, which is engaged in the business of issuing short term and long term insurance contracts relating to general insurance. Dubai Group Sigorta A.Ş. was acquired by the Group with the objective of improving its overall geographical spread.

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (2014: 32.46%).

12 Investment properties

	2015 **AED'000**	2014 AED'000
At fair value		
At 1 January	**490,317**	472,959
Purchases during the year	**3,012**	6,415
Change in fair value during the year (Note 30)	**34,196**	82,406
Disposals during the year	**-**	(71,463)
At 31 December	**527,525**	490,317

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

The fair value of investment properties as at 31 December 2015 has been arrived at on the basis of a valuation carried out by independent professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

There has been no change to the valuation technique during the year.

Fair value hierarchy of the Group's investment properties are as follows:

At 31 December 2015

	Level 1 **AED'000**	**Level 2** **AED'000**	**Level 3** **AED'000**	**Total** **AED'000**
Investment properties	**-**	**527,525**	**-**	**527,525**

At 31 December 2014

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Investment properties	-	490,317	-	490,317

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

13 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and other AED'000	Capital work-in-progress AED'000	Total AED'000
Cost					
At 1 January 2014	1,053,893	424,639	450,810	19,592	1,948,934
Additions during the year	30,204	73,573	69,312	18,197	191,286
Transfers	-	(205)	205	-	-
Disposals/write-offs	(35,354)	(17,362)	(80,243)	-	(132,959)
At 31 December 2014	1,048,743	480,645	440,084	37,789	2,007,261
Additions during the year	**30,889**	**93,804**	**93,992**	**12,434**	**231,119**
Transfers	**-**	**6,782**	**-**	**(6,782)**	**-**
Disposals/write-offs	**(723)**	**(80,684)**	**(49,642)**	**-**	**(131,049)**
At 31 December 2015	**1,078,909**	500,547	**484,434**	**43,441**	**2,107,331**
Accumulated depreciation and impairment					
At 1 January 2014	362,662	275,603	209,382	-	847,647
Charge for the year (Note 31)	19,092	58,615	69,478	-	147,185
Transfers	-	(29)	29	-	-
Eliminated on disposals/write-offs	(3,313)	(12,113)	(78,265)	-	(93,691)
At 31 December 2014	378,441	322,076	200,624	-	901,141
Charge for the year (Note 31)	**18,615**	**62,232**	**67,790**	**-**	**148,637**
Eliminated on disposals/write-offs	**(240)**	**(73,261)**	**(34,316)**	**-**	**(107,817)**
At 31 December 2015	**396,816**	**311,047**	**234,098**	**-**	**941,961**
Carrying amount					
At 31 December 2015	**682,093**	**189,500**	**250,336**	**43,441**	**1,165,370**
At 31 December 2014	670,302	158,569	239,460	37,789	1,106,120

Included in capital work-in-progress AED 32 million represents implementation of a new insurance underwriting system.

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

14 Deposits and balances due to banks

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

	2015 AED'000	2014 AED'000
Time	**4,086,745**	5,439,530
Demand	**2,262,741**	1,356,613
Overnight	**2,882,427**	1,428,390
	9,231,913	8,224,533

(b) The above represent borrowings from:

	2015 AED'000	2014 AED'000
Banks within the U.A.E.	**2,848,821**	2,463,344
Banks outside the U.A.E.	**6,383,092**	5,761,189
	9,231,913	8,224,533

15 Repurchase agreements with banks

Repricing	Maturity date	Interest rate	2015 AED'000	2014 AED'000
6 months	May 2016	0.94% per annum	**734,564**	-
3 months	August 2015	2.48% per annum	-	623,036
			734,564	623,036

Collateral given against these Repo borrowings is disclosed in Notes 7 and 8 to the consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

16 Customers' deposits

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

	2015 AED'000	2014 AED'000
Current and other accounts	**38,839,043**	36,388,965
Saving accounts	**3,555,435**	3,440,844
Time deposits	**22,849,312**	23,475,568
	65,243,790	63,305,377

(b) Analysis by industry sector:

	2015 AED'000	2014 AED'000
Government and public sector	**4,959,337**	8,584,524
Commercial and business	**43,440,872**	38,808,823
Personal	**14,397,197**	13,608,379
Financial institutions	**2,024,684**	2,260,613
Other	**421,700**	43,038
	65,243,790	63,305,377

17 Islamic customers' deposits

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

	2015 AED'000	2014 AED'000
Current and other accounts	**2,845,304**	2,470,438
Saving accounts	**172,525**	217,218
Time deposits	**5,373,661**	2,495,110
	8,391,490	5,182,766

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

	2015 AED'000	2014 AED'000
Government and public sector	**2,587,933**	186,811
Commercial and business	**2,987,231**	2,355,310
Personal	**696,499**	674,585
Financial institutions	**2,119,827**	1,966,060
	8,391,490	5,182,766

18 Insurance and life assurance funds

	Outstanding claims AED'000	**Unearned premium reserve AED'000**	**Additional reserve AED'000**	**Life assurance fund AED'000**	**Total AED'000**
At 1 January 2014	372,099	501,299	100,105	453,496	1,426,999
Increase/(decrease)	55,266	106,684	(26,593)	92,783	228,140
At 31 December 2014	427,365	607,983	73,512	546,279	1,655,139
Increase/(decrease)	**(29,772)**	**(118,486)**	**75,570**	**(22,747)**	**(95,435)**
At 31 December 2015	**397,593**	**489,497**	**149,082**	**523,532**	**1,559,704**

Unearned premium reserve is calculated on time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

Life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

19 Other liabilities

	2015 **AED'000**	2014 AED'000
Interest payable	**231,871**	147,597
Negative fair value of derivatives (Note 41)	**872,607**	1,075,932
Acceptances*	**3,499,817**	2,417,525
Insurance premium collected in advance	**540,781**	301,943
Accrued expenses	**598,805**	482,209
Income received in advance	**200,935**	123,046
Pay orders issued	**295,519**	206,568
Provision for employees' end of service indemnity**	**193,997**	188,530
Credit card related payables	**45,612**	10,685
Provision for taxation	**87,326**	74,050
Other	**836,866**	894,549
	7,404,136	5,922,634

* Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset (Note 10).

** Provision for employees' end of service indemnity included AED 181 million (2014: AED 178 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

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

20 Medium-term loans

	2015 **AED'000**	2014 AED'000
Medium term notes	**2,269,356**	2,171,743
Syndicated Loan	**1,836,500**	1,836,500
	4,105,856	4,008,243

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

20 Medium-term loans (continued)

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

Due date	Interest rate	2015 AED'000	2014 AED'000
20 February 2015	1.450%	-	183,650
12 June 2015	1.300%	-	183,650
19 June 2015	3 months Libor + 0.900%	-	36,730
27 November 2015	1.330 %	-	91,825
24 February 2016	3 months Libor + 1.450%	**110,190**	110,190
16 May 2016	3 months Euribor + 1.250%	**41,369**	46,000
23 June 2016	1.370%	**183,650**	-
25 June 2016	2.060%	**36,730**	36,730
30 June 2016	3 months Libor +0.780%	**36,730**	-
7 July 2016	3 months Libor + 1.300%	**93,294**	93,294
9 July 2016	1.300%	**36,730**	-
28 July 2016	0.270%	**47,115**	-
4 August 2016	3 months Libor +0.800%	**73,460**	-
5 August 2016	3 months Libor + 0.850%	**95,787**	95,651
18 August 2016	0.280%	**43,974**	-
11 October 2016	0.250%	**94,230**	-
19 December 2016	0.380%	**31,410**	-
18 January 2017	3 months Libor + 1.000%	**91,825**	91,825
24 January 2017	3 months Libor +1.125%	**1,020,726**	1,020,726
6 February 2017	2.750%	**121,945**	126,376
6 June 2017	3 months Libor + 1.750%	**55,096**	55,096
23 April 2018	3 months Libor +1.050%	**55,095**	-
		2,269,356	2,171,743

Medium term notes are denominated in following currencies:

	2015 AED'000	2014 AED'000
U.S. Dollars	**1,793,526**	1,903,716
Swiss Francs	**95,787**	95,651
Kuwaiti Dinar	**121,945**	126,376
Euro	**41,369**	46,000
Japanese Yen	**216,729**	-
	2,269,356	2,171,743

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

20 Medium-term loans (continued)

The Group established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2.75 billion) under an agreement dated 4 February 2004. On 15 March 2010, the EMTN programme limit was increased to USD 5 billion (AED 18.37 billion).

AED 1.02 billion is a subordinated floating rate note ("FRN") and qualified and approved by U.A.E. Central Bank for Tier 2 subordinated loan capital till 2012 and is consequently being amortised at the rate of 20% per annum for next five years until 2017 for capital adequacy calculation purposes.

During the year, new medium-term notes of AED 602 million were issued and AED 496 million of medium-term notes were redeemed.

(b) During the year ended 31 December 2014, the Group had signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of 3 years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis.

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2015, 177,530,823 ordinary shares of AED 10 each (31 December 2014: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 22 February 2015, the shareholders approved a stock dividend in respect of the year ended 31 December 2014 at 5% of the issued and paid up capital, amounting to AED 84.53 million. Accordingly, the authorised and issued share capital was increased by the amount of stock dividends.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

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

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

21 Issued and paid up capital and reserves (continued)

(d) **Cumulative translation adjustment**

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

(e) **Investments revaluation reserve**

Investment revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 178 million (2014: profit of AED 6 million) and was reflected in the consolidated statement of comprehensive income.

(f) **Cash flow hedging reserve**

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

The movement of the cash flow hedging reserve is below:

	2015 **AED'000**
At 1 January	-
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	**10,791**
Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated income statement	**(1,570)**
At 31 December	**9,221**

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

21 Issued and paid up capital and reserves (continued)

(g) Dividends on equity instruments

During the year ended 31 December 2015, a 40% cash dividend amounting to AED 676 million for the year ended 31 December 2014 (2013: AED 676 million) was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting held on 22 February 2015.

22 Non-controlling interests

	2015 AED'000	2014 AED'000
At 1 January	**755,668**	673,547
Profit for the year	**32,538**	85,011
Other comprehensive (loss)/income for the year	**(56,069)**	3,810
Dividends paid	**(18,129)**	(16,789)
Additional contribution attributable to the new non-controlling interest shareholders*	**3,110**	10,089
At 31 December	**717,118**	755,668

* Additional contribution was made during the year by the non-controlling interest shareholders of Dubai Group Sigorta A.Ş.

23 Contra accounts and commitments

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

		2015 AED'000	2014 AED'000
(i)	Contra accounts (memoranda)		
	Guarantees	**40,720,747**	41,555,387
	Letters of credit	**5,912,089**	6,425,015
		46,632,836	47,980,402
(ii)	Commitments for acquisition of property and equipment	**110,710**	76,330
(iii)	Operating lease commitments	**124,061**	112,494
Total contra accounts and commitments		**46,867,607**	48,169,226

(b) Irrevocable undrawn facilities commitments as at 31 December 2015 amounted to AED 4.73 billion (2014: AED 4.38 billion).

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

23 Contra accounts and commitments (continued)

(c) Contra accounts – maturity profile

The maturity profile of the Group's contra accounts were as follows:

2015

	Within 3 months AED'000	**Over 3 to 6 months AED'000**	**Over 6 to 12 months AED'000**	**Over 1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Guarantees	**16,278,449**	**1,974,273**	**1,790,644**	**7,863,492**	**12,813,889**	**40,720,747**
Letters of credit	**2,495,726**	**613,044**	**1,374,641**	**1,428,678**	**-**	**5,912,089**
Total	**18,774,175**	**2,587,317**	**3,165,285**	**9,292,170**	**12,813,889**	**46,632,836**

2014

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	15,922,773	1,925,191	1,973,526	6,655,986	15,077,911	41,555,387
Letters of credit	3,832,992	43,705	673,427	1,874,891	-	6,425,015
Total	19,755,765	1,968,896	2,646,953	8,530,877	15,077,911	47,980,402

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

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	2015 AED'000	2014 AED'000
Less than 1 year	**40,522**	37,114
1 to 5 years	**53,737**	53,987
Over 5 years	**29,802**	21,393
Total	**124,061**	112,494

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

24 Interest income

	2015 AED'000	2014 AED'000
Loans and advances	**3,318,455**	3,149,929
Banks	**379,512**	383,626
Other financial assets	**258,663**	182,495
Central banks	**145,316**	66,491
	4,101,946	3,782,541

25 Income from Islamic financing and investment products

	2015 AED'000	2014 AED'000
Financing		
Murabaha	**160,940**	148,162
Ijara	**57,676**	60,919
Other	**3,032**	6,006
	221,648	215,087
Investment		
Mushakara	**-**	1,586
Mudaraba	**5,220**	7,388
Wakala	**31,425**	18,631
	36,645	27,605
Total	**258,293**	242,692

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

26 Interest expense

	2015 AED'000	2014 AED'000
Customers' deposits	**608,318**	568,176
Deposits and balances due to central banks	**-**	37
Deposits and balances due to other banks	**363,769**	326,687
Medium-term loans	**61,105**	39,326
	1,033,192	934,226

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Sharia'a Supervisory Board.

28 Net fee and commission income

	2015 AED'000	2014 AED'000
Fee and commission income		
Commission income	**628,602**	705,444
Brokerage and asset management	**26,919**	83,408
Insurance commission	**309,004**	333,089
Fees and charges on banking services	**656,842**	706,701
Credit card related fees	**1,212,096**	989,724
Other	**191,124**	186,065
Total fee and commission income	**3,024,587**	3,004,431
Fee and commission expenses		
Commission expense	**(96,735)**	(162,556)
Brokerage and asset management	**(372)**	(323)
Insurance commission	**(330,053)**	(401,201)
Credit card related expenses	**(802,923)**	(659,113)
Other	**(70,096)**	(72,617)
Total fee and commission expenses	**(1,300,179)**	(1,295,810)
Net fee and commission income	**1,724,408**	1,708,621

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

29 Net investment income

	2015 **AED'000**	2014 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**33,305**	36,407
Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)]	**(41,291)**	33,174
Interest income from debt securities at FVTPL	**160,330**	85,544
Dividends income from other financial assets measured at FVTPL	**1,019**	776
Net realised loss from sale of other financial assets measured at amortised cost	**(10,345)**	(4,048)
Dividend income from financial assets measured at FVTOCI [Note 7 (j)]	**26,088**	36,116
	169,106	187,969

30 Other income, net

	2015 **AED'000**	2014 AED'000
Fair value adjustments of investment properties (Note 12)	**34,196**	82,406
Foreign exchange gains, net	**413,100**	291,965
Insurance and other related income, net [Note 30(a)]	**334,048**	423,690
(Loss)/gain on disposal of property and equipment	**(4,959)**	24,414
Gain from disposal of investment properties	**-**	16,807
Fair value adjustment – derivatives	**7,070**	4,328
Other	**38,747**	64,856
	822,202	908,466

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

30 Other income, net (continued)

(a) Insurance and other related income, net

	2015 AED'000	2014 AED'000
Net insurance premium revenue	**1,399,184**	1,453,698
Net claims incurred	**(1,115,567)**	(1,065,273)
Other insurance related income, net	**50,431**	35,265
	334,048	423,690

31 General and administrative expenses

	2015 AED'000	2014 AED'000
Salaries and employees related expenses	**1,405,758**	1,293,327
Depreciation on property and equipment (Note 13)	**148,637**	147,185
Social contribution	**1,238**	1,324
Other	**916,894**	767,791
	2,472,527	2,209,627

Pension and national insurance contribution for U.A.E. citizens are made by the Group in accordance with Federal Law No. 7 of 1999.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

32 Allowances for impairment, net

2015

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for / (reversal of) impaired loans and advances, net [Note 8 (e)]	**106,883**	**987,501**	**(305,170)**	**789,214**
Allowance for impaired balances due from banks, net [Note 6 (c)]	-	**261**	-	**261**
Allowance for other assets, net	-	**38,120**	-	**38,120**
(Reversal of) / allowance for impaired Islamic assets, net [Note 9(d)]	**(8,382)**	-	**8,000**	**(382)**
Reversal of allowance against impaired other financial assets [Note 7 (d)]	-	**(33,852)**	-	**(33,852)**
Write-off of impaired loans and advances	**470,835**	-	-	**470,835**
Recovery of allowance against impaired loans and advances [Note 8 (e)]	-	**(5,215)**	-	**(5,215)**
Recovery of loans and advances previously written off	**(43,596)**	**(215,580)**	-	**(259,176)**
	525,740	**771,235**	**(297,170)**	**999,805**

2014

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for impaired loans and advances, net [Note 8 (e)]	63,683	182,662	596,290	842,635
Allowance for impaired balances due from banks, net [Note 6 (c)]	-	5,655	-	5,655
Allowance for other debtors, net	-	295	-	295
(Reversal of) /allowance for impaired Islamic assets, net [Note 9(d)]	(2,812)	-	10,000	7,188
Write-off of impaired loans and advances	339,834	-	-	339,834
Recovery of allowance against impaired loans and advances [Note 8 (e)]	-	(63,491)	-	(63,491)
Allowance for impaired other financial assets [Note 7 (d)]	-	51,450	-	51,450
Recovery of allowance against impaired balance due from banks [Note 6 (c)]	-	(45,492)	-	(45,492)
Recovery of loans and advances previously written off	(54,568)	(8,789)	-	(63,357)
	346,137	122,290	606,290	1,074,717

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

33 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 year. In accordance with IAS 33 *Earnings Per Share*, the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented as follows:

	2015 AED	2014 AED
Profit for the year (AED'000) (Attributed to owners of the Parent)	**2,402,107**	2,401,259
Number of ordinary shares outstanding [Note 21 (a)]	**177,530,823**	177,530,823
Basic and diluted earnings per share (AED)	**13.53**	13.53

34 Proposed dividends

The Board of Directors has proposed 40% cash dividend at their meeting held on 27 January 2016.

35 Cash and cash equivalents

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

	2015 AED'000	2014 AED'000
Cash on hand	**845,591**	1,077,927
Balances with central banks:		
Current accounts and other balances	**8,203,244**	5,381,371
Deposits and balances due from banks maturing within 3 months	**10,828,896**	10,033,234
	19,877,731	16,492,532

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

36 Investment in subsidiaries

(a) At 31 December 2015, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
Oman Insurance Company (PSC) Group	United Arab Emirates	63.94	63.94	Insurance & reinsurance
Mindscape Information Technology L.L.C.	United Arab Emirates	99.00	99.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
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
Bracebridge Limited	British Virgin Islands	*	100.00	Special purpose vehicle
Orriston Limited	British Virgin Islands	*	100.00	Special purpose vehicle

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of effective control.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

36 Investment in subsidiaries (continued)

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

Name of Subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interest	
	2015 AED '000	2014 AED '000	**2015 AED '000**	2014 AED '000
Oman Insurance Company (PSC) Group	**31,355**	84,622	**699,630**	749,627
Individually immaterial subsidiaries with non-controlling interests	**1,183**	389	**17,488**	6,041
	32,538	85,011	**717,118**	755,668

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

	2015 AED'000	2014 AED'000
Statement of financial position		
Total assets	**5,947,870**	6,035,426
Total liabilities	**4,031,726**	4,035,478
Net equity	**1,916,144**	1,999,948

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

36 Investment in subsidiaries (continued)

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

	2015 AED'000	2014 AED'000
Statement of comprehensive income		
Net insurance premium revenue	**1,399,184**	1,453,698
Net claims incurred	**(1,115,567)**	(1,065,273)
Net commission and other income/(loss)	**29,415**	(15,697)
Net investment income	**89,274**	142,253
Net expenses	**(319,823)**	(289,381)
Profit for the year	**82,483**	225,600
Other comprehensive (loss)/income	**(126,994)**	14,475
Total comprehensive (loss)/income	**(44,511)**	240,075

	2015 AED'000	2014 AED'000
Statement of cash flows		
Net cash generated from operating activities	**8,649**	156,993
Net cash used in investing activities	**(227,526)**	(116,133)
Net cash flows used in financing activities	**(9,588)**	(36,086)
Net (decrease)/increase in cash and cash equivalents	**(228,465)**	4,774

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

37 Related party transactions

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

(b) The Group is controlled by Al Ghurair Family members who own 87.73% (2014: 87.31%) of the issued and paid up capital.

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

	2015 AED '000	2014 AED '000
Loans and advances measured at amortised cost	**1,539,510**	1,413,188
Customer's deposits	**1,401,076**	1,373,672
Letters of credit and guarantee	**2,014,011**	1,901,508

(d) Profit for the year includes related party transactions as follows:

	2015 AED '000	2014 AED '000
Interest income	**63,981**	95,517
Interest expense	**10,353**	24,407
Other income, net	**52,276**	79,705

(e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 148 million (2014: AED 148 million).

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

38 Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	2015			2014		
	Assets AED'000	**Liabilities AED'000**	**Off balance sheet items AED'000**	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000
U.A.E.	**68,815,128**	**61,846,876**	**31,018,057**	64,136,335	59,341,953	32,284,914
Other Middle East Countries	**20,893,680**	**18,591,634**	**9,267,172**	20,022,861	16,945,421	8,472,705
O.E.C.D.	**10,269,825**	**11,309,970**	**3,192,241**	8,859,491	9,185,592	4,704,716
Other	**15,178,548**	**4,922,973**	**3,155,366**	12,821,591	3,448,762	2,518,067
	115,157,181	**96,671,453**	**46,632,836**	105,840,278	88,921,728	47,980,402

(b) Industry Sector

	2015			2014		
	Assets AED'000	**Liabilities AED'000**	**Off balance sheet items AED'000**	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000
Government and Public Sector	**15,435,113**	**5,660,054**	**175,107**	12,784,184	8,828,091	91
Commercial & Business	**37,825,368**	**52,306,710**	**36,028,354**	34,572,606	42,316,778	38,452,017
Personal	**15,015,784**	**15,431,320**	**920,813**	15,772,150	15,777,679	400,754
Financial Institutions	**44,848,944**	**22,269,348**	**9,439,408**	38,010,792	19,347,855	9,074,264
Other	**2,031,972**	**1,004,021**	**69,154**	4,700,546	2,651,325	53,276
	115,157,181	**96,671,453**	**46,632,836**	105,840,278	88,921,728	47,980,402

39 Segmental information

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 and cash management 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 the U.A.E. The product offerings to customers include current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, Private banking and wealth management services.

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, risk participations.

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

6. The Insurance subsidiary, Oman Insurance Company (PSC) – 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.

7. The **Head office** 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 described in Note 3 to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas income tax expenses.

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	2015							
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head Office AED'000	Total AED'000
Net interest income and earnings from Islamic products	876,311	1,202,319	69,458	631,421	193,036	40,963	248,281	3,261,789
Other operating income, net	447,411	635,477	483,192	669,321	114,534	352,188	13,593	2,715,716
Total operating income	1,323,722	1,837,796	552,650	1,300,742	307,570	393,151	261,874	5,977,505
General and administrative expenses								(2,472,527)
Allowances for impairment								(999,805)
Profit before taxes								2,505,173
Overseas income tax expense								(70,528)
Profit for the year								2,434,645
Attributed to:								
Owners of the Parent								2,402,107
Non-controlling interests								32,538
								2,434,645
Segment Assets	29,500,767	14,430,585	15,657,273	32,831,357	7,594,622	4,204,384	10,938,193	115,157,181
Segment Liabilities	26,799,217	23,041,000	9,009,000	21,281,772	8,459,961	2,336,422	5,744,081	96,671,453

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	2014							
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head Office AED'000	Total AED'000
Net interest income and earnings from Islamic products	883,284	1,099,006	89,188	499,795	191,509	38,916	238,125	3,039,823
Other operating income, net	545,978	526,768	510,174	559,381	119,098	454,119	89,538	2,805,056
Total operating income	1,429,262	1,625,774	599,362	1,059,176	310,607	493,035	327,663	5,844,879
General and administrative expenses								(2,209,627)
Allowances for impairment, net								(1,074,717)
Profit before taxes								2,560,535
Overseas income tax expense								(74,265)
Profit for the year								2,486,270
Attributed to:								
Owners of the Parent								2,401,259
Non-controlling interests								85,011
								2,486,270
Segment Assets	29,617,480	14,060,662	13,697,901	28,548,004	6,573,707	4,138,444	9,204,080	105,840,278
Segment Liabilities	31,276,115	19,010,000	8,174,000	19,364,000	5,219,124	2,231,266	3,647,223	88,921,728

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

39 Segmental information (continued)

Geographical information

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

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

	Operating income external customers *		**Non-current assets ****	
	2015	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000
U.A.E.	**4,968,974**	4,991,845	**1,653,031**	1,562,794
Other Middle East countries	**790,110**	634,901	**36,008**	29,226
O.E.C.D.	**167,524**	163,299	**2,476**	2,722
Other countries	**50,897**	54,834	**19,530**	28,283
	5,977,505	5,844,879	**1,711,045**	1,623,025

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

** Non-current assets include property and equipment, investment properties and goodwill.

Revenue from major products and services

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

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2015 and 2014.

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2015:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	19,423,463	19,423,463
Deposits and balances due from banks	-	-	15,009,990	15,009,990
Other financial assets measured at fair value	3,267,810	657,155	-	3,924,965
Loans and advances measured at amortised cost	-	-	53,555,070	53,555,070
Islamic financing and investment products measured at amortised cost	-	-	6,610,606	6,610,606
Other financial assets measured at amortised cost	-	-	7,993,072	7,993,072
Other assets	879,233	-	5,647,102	6,526,335
Total	4,147,043	657,155	108,239,303	113,043,501
Financial liabilities:				
Deposits and balances due to banks	-	-	9,231,913	9,231,913
Repurchase agreements with banks	-	-	734,564	734,564
Customers' deposits	-	-	65,243,790	65,243,790
Islamic customers' deposits	-	-	8,391,490	8,391,490
Other liabilities	872,607	-	5,508,490	6,381,097
Medium-term loans	-	-	4,105,856	4,105,856
Total	872,607	-	93,216,103	94,088,710

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	15,159,258	15,159,258
Deposits and balances due from banks	-	-	14,211,256	14,211,256
Other financial assets measured at fair value	2,419,549	789,785	-	3,209,334
Loans and advances measured at amortised cost	-	-	52,246,614	52,246,614
Islamic financing and investment products measured at amortised cost	-	-	5,799,094	5,799,094
Other financial assets measured at amortised cost	-	-	7,579,700	7,579,700
Other assets	1,073,437	-	4,548,179	5,621,616
Total	3,492,986	789,785	99,544,101	103,826,872
Financial liabilities:				
Deposits and balances due to banks	-	-	8,224,533	8,224,533
Repurchase agreements with banks	-	-	623,036	623,036
Customers' deposits	-	-	63,305,377	63,305,377
Islamic customers' deposits	-	-	5,182,766	5,182,766
Other liabilities	1,075,932	-	4,159,133	5,235,065
Medium-term loans	-	-	4,008,243	4,008,243
Total	1,075,932	-	85,503,088	86,579,020

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2015

				Notional amount by term maturity				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	246,524	251,518	52,793,334	42,433,000	5,440,883	4,360,410	559,041	-
Foreign exchange options (bought)	-	26,821	2,825,778	1,392,343	449,175	173,683	810,577	-
Foreign exchange options (sold)	28,804	-	2,416,564	1,894,483	86,427	30,364	405,290	-
Interest rate swaps	595,413	591,110	31,254,336	1,611,688	72,424	1,842,172	19,782,517	7,945,535
Credit default swaps	17	-	18,365	-	18,365	-	-	-
Equity options	3,499	-	20,234	20,234	-	-	-	-
Futures contracts purchased (Customer)	-	48	36,551	34,118	2,433	-	-	-
Futures contracts sold (Customer)	-	2,361	122,695	122,695	-	-	-	-
Futures contracts sold (Bank)	48	-	36,551	34,118	2,433	-	-	-
Futures contracts purchased (Bank)	2,361	-	122,695	122,695	-	-	-	-
	876,666	871,858	89,647,103	47,665,374	6,072,140	6,406,629	21,557,425	7,945,535
Derivatives held as cash flow hedges:								
Cross currency swaps	2,567	749	270,735	-	-	-	270,735	-
Total	879,233	872,607	89,917,838	47,665,374	6,072,140	6,406,629	21,828,160	7,945,535

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2014

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term maturity: Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	300,772	306,367	40,529,804	26,681,216	11,364,235	1,505,653	978,700	-
Foreign exchange options (bought)		48,329	5,834,270	127,820	1,712,346	3,994,104	-	-
Foreign exchange options (sold)	48,366	-	5,833,191	127,821	1,711,266	3,994,104	-	-
Interest rate swaps	718,306	716,915	27,577,008	574,671	1,136,637	1,422,673	18,350,840	6,092,187
Credit Defaul Swaps	632	-	10,000	-	10,000	-	-	-
Equity options	1,040	-	10,117	10,117	-	-	-	-
Futures contracts purchased (Customer)	-	2,921	87,526	86,383	1,143	-	-	-
Futures contracts sold (Customer)	1,400	-	142,308	140,524	1,784	-	-	-
Futures contracts sold (Bank)	2,921	-	87,526	86,383	1,143	-	-	-
Futures contracts purchased (Bank)	-	1,400	142,308	140,524	1,784	-	-	-
	1,073,437	1,075,932	80,254,058	27,975,459	15,940,338	10,916,534	19,329,540	6,092,187

42 Capital management

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

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

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

- To maintain a strong capital base and capital buffer to support the development of its business.

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the U.A.E. adopted the Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly owned, after deductions for goodwill and intangible assets, if any.

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of CRWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (up to a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI.

- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however the Regulator may allow use of excess capital (over regulatory limits) invested.

42 Capital management (continued)

Regulatory capital (continued)

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA.

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. For U.A.E. Central Bank reporting purposes, the bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group issued in the year ended 31 December 2007 medium-term floating rates notes.

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

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

The Group's regulatory capital positions as at 31 December 2015 and 2014 were as follows:

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

42 Capital management (continued)

Regulatory capital (continued)

		2015 AED'000	2014 AED'000
Tier 1 capital			
Issued and paid up capital		**1,775,308**	1,690,770
Statutory and legal reserve		**896,595**	852,582
General reserve		**312,000**	312,000
Cumulative translation adjustment		**(60,610)**	(53,315)
Goodwill		**(18,150)**	(26,588)
Retained earnings		**15,112,512**	13,512,995
Non-controlling interest		**5,835**	6,696
Deduction from Tier 1 Capital		**(22,750)**	(18,531)
Total		**18,000,740**	16,276,609
Tier 2 capital			
Allowance for collective impairment		**1,246,645**	1,194,998
Investments revaluation reserve		**(276,416)**	(152,150)
Cash flow hegding reserve		**9,221**	-
Qualifying subordinated liabilities*		**221,157**	425,303
Deduction from Tier 2 Capital		**(22,750)**	(18,531)
Total		**1,177,857**	1,449,620
Total capital base	**(A)**	**19,178,597**	17,726,229
Risk-weighted assets			
Credit risk		**99,731,614**	95,599,856
Market risk		**4,424,390**	2,982,151
Operational risk		**9,358,033**	8,046,174
Total risk-weighted assets	**(B)**	**113,514,037**	106,628,181
Risk asset ratio	**[(A)/(B) x 100]**	**16.90%**	16.62%

* Qualifying subordinated liabilities represents the following:

	2015 AED'000	2014 AED'000
Medium-term notes [Note 20]	**1,020,726**	1,020,726
Less: Cumulative amortisation	**(799,569)**	(595,423)
	221,157	425,303

42 Capital management (continued)

Capital allocation

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

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

43 Risk management

The core responsibility of the Risk Management Group is to identify, measure, mitigate, price and manage risk to ensure that the Bank generates sustainable returns by maintaining acceptable asset quality and meeting the desired capital return as mandated by the shareholders.

The Group has exposure to the following primary risks:

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

The Groups ability to consistently foster a robust risk management culture and framework is an important factor in its financial stability and growth.

Risk Management Framework

The Board of Directors (the "BOD") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by various committees including the Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee etc., who work under the mandate of the BOD. These committees approve risk management policies of the Bank developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Group. The Risk Committee is responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Risk Committee also monitors and establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain asset quality.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

The Risk Management Group function is independent of the business groups and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

Risk Analytics and Modelling:
The Audit, Fraud and Compliance Group (AFCG) are independent of Risk Management. AFCG provides independent assurance to stakeholders and senior management on compliance with all credit policies and procedures in the Bank and the effectiveness of credit management processes. This is undertaken by a periodic review of all risk-taking units, in addition to Risk Management. AFCG reports directly to the Chief Executive Officer (CEO).

Mashreq has robust metrics in place for determining Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD") variables. The Basel Risk Analytics and Modelling Unit within Risk Management Group is responsible as per Basel II guidelines for periodically validating various risk rating models including recalibration PD, LGD and EAD parameters.

The Internal Capital Adequacy Assessment Process (ICAAP) and the Stress Testing team within Risk Management Group is responsible for calculating the Group's economic capital requirement and managing the Group's Internal Capital Adequacy Assessment Process (ICAAP). This entails monitoring the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less risk capital demand) and recommending appropriate actions, as required.

As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific obligors or industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis

Credit risk management

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, dues from banks and financial institutions and non-trading investment activities.

Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established through adoption of prudent credit structures relevant to the credit risk. To reduce individual counterparty credit risk, the Group ensures that, whenever necessary, loans are secured by acceptable form of collateral. The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate performing borrower is assigned an internal rating between MRS 1 to MRS 25 and non-performing borrowers are assigned ratings of non-accrual under restructuring (NAUR), substandard, doubtful and loss.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

43 Risk management (continued)

Credit risk management (continued)

All credit policies are reviewed and approved by the Bank's Risk Committee. The policies are reviewed regularly to reflect changes in market conditions or regulatory requirements.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. Credit risk is also mitigated through adoption of prudent credit structures relevant to the credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale credit risk management

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky or speculative.

Limit setting is based on a combination of factors, including a detailed evaluation of each customer's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

The Wholesale Credit Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head in line with the Wholesale Credit Policy, and approved by the Group's Chief Executive Officer (the "CEO").

The Group has established limits for managing transferability and convertibility, together defined as cross-border limits. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on each country's financial strength and stability, using a set of metrics such as external debt, overall fiscal position, exports, imports, foreign exchange reserves and external debt service ratio. These limits are then applied to all international transaction flows where there is a risk of default represented by convertibility and/or transferability restrictions.

Wholesale Credit Risk Management includes Special Assets Management Group that manages credits that are rated as watch list and worse. Special Assets Management Group was established to have a more focused view on all remedial accounts and, on a pro-active basis, identify and take timely actions on potential weak credits and also performs recovery function.

Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports to Operations & Technology Group.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to the approved product program, which is devised in accordance with guidelines set out in the retail credit policy manual approved by the Group's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models for high volume porducts such as Credit cards and Personal loans & based on manual underwriting on documented policies for low volume products such as Mortgages and Auto loans. Periodic and detailed credit reviews are performed at portfolio level to monitor and track portfolio performance.

43 Risk management (continued)

Credit risk management (continued)

Retail credit risk management (continued)

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels are also captured in the Product Program.

Credit review procedures

Specialists within AFCG undertake regular reviews of the portfolio. In the wholesale portfolio this involves sampling of assets. In retail the focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the Group's internal policies in order to assist in the early identification of potential problems and ensure approved credit policies, guidelines and operating procedures across the Group are implemented.

Loan classification

As per Mashreq's wholesale credit policy, all performing commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 – 22. Obligors at the higher risk end rated 21 and 22 are categorised as "Watch". Classified exposures fall into 5 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorised as "Specially Mentioned I" and 25 are categorised as "Specially Mentioned II". All Loans and advances rated from 21 to 25 are considered as Grade 4 – Watch-List in the note below.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non–performing assets.

Outside the 25 point scale, there are 4 ratings – Non-Accrual Under Restructuring (NAUR), Sub-standard, Doubtful and Loss, categorised as Non-Performing assets. NAUR rating is assigned to borrowers that are past due by more than 90 days on payment of interest and where negotiation for re-structuring is in progress. Sub-standard loans are assets where the ability to service the debt has been severely impacted and where the principal or interest is past due for over 90 days and there is no immediate prospects of a restructuring. Provisions and loans classification are taken in line with the Central Bank of U.A.E. guidelines.

When interest or principal of a credit is overdue for ninety days or more, interest is suspended and is not credited to consolidated income statement. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortisation into income of deferred loan fees ceases. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

Any collections on cash basis for non-performing loans are accounted for on the basis of credit policy. Where provisions are held, the amount collected is applied first towards principal, and then to interest. Where provisions are not held, the amount collected is applied first to interest and then to principal.

43 Risk management (continued)

Credit risk management (continued)

Impaired loans and securities

Impaired loans and other financial assets are loans and other financial assets for which the Group determines that it will be unable to collect all principal and interest due according to the contractual terms of the loans and other financial assets agreements. These assets are graded Non-Accrual under Restructuring (NAUR), Sub-Standard, Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits. It also includes assets where interest has been suspended or stopped pending conclusion of the re-structuring.

Impairment of retail loans is calculated by applying a formulaic approach as per Central Bank guidelines whereby a provision of 25% of principal balance is made when it is past due by more than 90 days and less than 120 days a provision of 50% of principal balance is made when is past due by more than 120 days and less than 180 days. Where such a segregation is not possible as to principal balance, the provisions are taken as aforesaid on the total balance against the facility. Retail loans are written off at a maximum of 181 days past their due date, based on the characteristics of the underlying product. The only exception to this is mortgages, where provisioning is based on Central Bank guidelines. Notwithstanding for certain high risk mortgages, the entire outstanding is fully provided for at 180 days overdue.

Past due but not impaired loans and securities

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual interest or principal payments are past due. Very often these overdues are only for a few days and do not reflect fundamental weaknesses. On this class of asset the Group believes that specific impairment is not appropriate at the current condition on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for the statistical possibility that some of these loan may get impaired in future.

The Group also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective interest rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available.

Write-off policy

The Group writes off a loan or other financial asset (and any related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Assets are written-off against provisions up to the extent of amount considered un-collectible. However, the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written off accounts.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Credit risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Islamic financing and investment		Other financial assets measured at amortised cost	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000	**2015 AED'000**	2014 AED'000	**2015 AED'000**	2014 AED'000
Impaired								
Non-Accrual Under Restructuring	-	-	83,332	88,673	-	-	-	-
Substandard	-	-	231,154	144,133	25,663	22,368	-	-
Doubtful	-	24,269	989,691	1,814,909	19,820	16,470	-	-
Loss	-	-	648,219	592,154	16,289	44,300	111,998	111,998
Gross amount	-	24,269	1,952,396	2,639,869	61,772	83,138	111,998	111,998
Interest/profit suspended	(122)	(5,944)	(229,533)	(461,744)	(4,719)	(3,720)	(2,129)	(2,129)
Specific allowance for impairment	-	(18,500)	(774,884)	(800,849)	(19,212)	(27,594)	(109,869)	(109,869)
	(122)	(175)	947,979	1,377,276	37,841	51,824	-	-
Past due but not impaired								
Past due by less than 90 days	-	-	99,788	132,215	94,766	-	-	-
Past due beyond 90 days	-	-	-	-	92,000	-	-	-
Past due retail loans beyond 30 days	-	-	365,776	195,342	25,873	12,655	-	-
	-	-	465,564	327,557	212,639	12,655	-	-
Neither past due nor impaired								
Gross amount	15,010,112	14,211,431	53,903,279	52,415,781	6,384,826	5,751,315	7,993,072	7,613,552
Other allowances	-	-	(202,000)	(5,004)	-	-	-	(33,852)
Collective allowance for impairment	-	-	(1,559,752)	(1,868,996)	(24,700)	(16,700)	-	-
	15,010,112	14,211,431	52,141,527	50,541,781	6,360,126	5,734,615	7,993,072	7,579,700
Carrying amount	15,009,990	14,211,256	53,555,070	52,246,614	6,610,606	5,799,094	7,993,072	7,579,700

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Credit risk management (continued)

Other allowances represent the difference between the carrying amount prior to renegotiating of loans and the net present value of the future cashflows using the original effective interest rate.

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2015 and 2014 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

	Loans and advances		Islamic financing and investment products	
	2015	2014	**2015**	2014
Grades	**AED'000**	AED'000	**AED'000**	AED'000
Grade 1 – Low risk	**4,036,364**	3,564,241	**547,836**	-
Grade 2 – Satisfactory risk	**38,850,512**	37,302,256	**4,668,614**	5,055,438
Grade 3 – Fair Risk	**5,870,094**	6,202,296	**672,514**	60,591
Grade 4 – Watch List	**5,146,309**	5,346,988	**495,862**	635,286
	53,903,279	52,415,781	**6,384,826**	5,751,315

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against other financial assets.

The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		Due from banks	
	2015	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000
Against individually impaired loans and advances:				
Property	**178,288**	227,276	-	-
Equities	**477,942**	805,538	-	-
Cash	**2,848**	2,859	-	-
Against loans and advances not impaired:				
Property	**9,845,672**	9,556,561	-	-
Equities	**1,234,669**	1,247,348	-	-
Cash	**619,112**	518,303	**192,953**	127,288
Others	**4,128,877**	5,188,057	-	-
Total	**16,487,408**	17,545,942	**192,953**	127,288

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Credit risk management (continued)

The distributions by geographical concentration of impaired loans and advances measured at amortised cost and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Other countries AED'000	Total AED'000
2015					
Impaired loans and advances	**906,280**	**1,045,916**	**200**	**-**	**1,952,396**
Impairment allowance for credit losses inclusive of interest in suspense	**(499,469)**	**(504,712)**	**(236)**	**-**	**(1,004,417)**
	406,811	**541,204**	**(36)**	**-**	**947,979**
2014					
Impaired loans and advances	1,009,947	1,629,713	209	-	2,639,869
Impairment allowance for credit losses inclusive of interest in suspense	(621,457)	(640,896)	(240)	-	(1,262,593)
	388,490	988,817	(31)	-	1,377,276

The distributions by geographical concentration of impaired Islamic financing and investment products measured at amortised cost and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Other countries AED'000	Total AED'000
2015					
Impaired Islamic financing and investment products	**48,755**	**13,017**	**-**	**-**	**61,772**
Impairment allowance for credit losses inclusive of profit in suspense	**(23,931)**	**-**	**-**	**-**	**(23,931)**
	24,824	**13,017**	**-**	**-**	**37,841**
2014					
Impaired Islamic financing and investment products	70,121	13,017	-	-	83,138
Impairment allowance for credit losses inclusive of profit in suspense	(31,314)	-	-	-	(31,314)
	38,807	13,017	-	-	51,824

43 Risk management (continued)

Operational risk

Operational risk is risk of loss resulting from inadequate or failed internal processes, systems or human factors or from external events. Mashreq operational risk policy outlines the approach and governance structure for the monitoring and managing of operational risk.

Governance

Operational risk is inherent in Mashreq's activities and as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well defined independent Risk Management. The objective of operational risk management is to identify measure, mitigate and monitor operational risk.

Operational risk management is based on three lines of defence. Business units form the first line of defence. They have direct responsibility of identifying and managing operational risk in their areas of responsibility and provide effective and prompt risk management. Operational risk management is part of the strategic and day to day decision making process by business units.

Group operational risk function is the second line of defence which provides uniform method systems across the bank to help identify, evaluate and monitor operational risk. Group Operational Risk Function is responsible to develop, maintain and champion Mashreq's operational risk management framework, policies and enablers to support operational risk management in the business as well as the implementation of Basel II and regulatory requirements. The operational risk team develops and guides the strategies, policies and monitoring tools for assessing and managing operational risk across the bank.

Internal Audit is the third line of defence entrusted with the independent auditing of business unit and group operational risk function methodologies.

Operational risk management

In accordance with principles in force within Mashreq, Operational Risk unit implemented a qualitative and quantitative system designed to identify, measure, monitor and mitigate operational risk, as required by Basel. The entire operational risk unit including the framework is subject to subject to audit. Below methodologies are being used in the management of operational risk

Risk and control self assessment (RCSA)

RCSA is a forward looking process through which business units identifies risk and offers set of control to mitigate the risks. This exercise provides a good view of the operational risk heat map within each entity and activity and also provides an opportunity to assess the quality of control environment.

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Key risk indicators (KRI)

Risk Indicators have been defined for each identified risk, which are collated monthly to provide meaningful trend information to the respective risk owners. This helps risk owners to assess the risk adequately and also act as a control and check point to identify under / over assessment of operational risk.

Measuring operational risk

Internal operational loss database

The internal loss data is backward looking process which is essential for measurement and management of operational risk. Internal loss database provides very valuable information in order to improve the quality of internal controls system and to be compliant with regulatory requirements.

Regulatory capital

Regulatory reporting for operational risk capital is calculated on quarterly basis. Mashreq has adopted the Standardized approach in determining its operational risk capital requirements.

Market risk management

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

Market Risk at Mashreq Bank is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is completely independent of the business. The Market Risk Function reports to the Head of Risk Management.

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

Each trading desk has a Permitted Product List comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from the TCM Product Policy Committee which assesses the risks associated with the product and verifies that they can be controlled effectively prior to approving the product.

43 Risk management (continued)

Market risk management (continued)

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval using Monte Carlo Simulations approach across its trading portfolio. Value at Risk framework is supplemented by other limits and sensitivity triggers.

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

During the year ended 31 December 2015, VaR was calculated regularly and as of 31 December 2015 the 99% one day VaR was USD 0.769 million (31 December 2014: USD 1.06 million).

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

Interest rate risk management

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

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

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2015 would have been an decrease in profit by 3.86% (in case of decrease of interest rate) and would have been an increase in profit by 4.35% (in case of increase of interest rate) [2014: -4.40% and +4.69%] respectively.

During the year ended 31 December 2015, the effective interest rate on due from banks and certificates of deposits with central banks was 1.36% (2014: 1.03%), on loans and advances measured at amortised cost 5.40% (2014: 5.48%), on customers' deposits 0.87% (2014: 0.78%) and on due to banks (including repurchase agreements) 0.61% (2014: 0.91%).

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

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
2015							
Assets							
Cash and balances with central banks	9,067,710	1,300,000	740,150	-	-	8,315,603	19,423,463
Deposits and balances due from banks	8,947,999	2,724,705	1,140,866	110,455	50,206	2,035,759	15,009,990
Other financial assets measured at fair value	520,704	542,360	1,128,184	58,713	165,633	1,509,371	3,924,965
Loans and advances measured at amortised cost	36,593,694	6,733,692	1,597,553	6,337,619	2,048,454	244,058	53,555,070
Islamic financing and investment products measured at amortised cost	4,433,943	339,820	616,033	798,420	355,185	67,205	6,610,606
Other financial assets measured at amortised cost	4,026,899	2,578,099	347,064	824,152	179,013	37,845	7,993,072
Other assets	-	-	-	-	-	6,928,970	6,928,970
Goodwill	-	-	-	-	-	18,150	18,150
Investment properties	-	-	-	-	-	527,525	527,525
Property and equipment	-	-	-	-	-	1,165,370	1,165,370
Total assets	63,590,949	14,218,676	5,569,850	8,129,359	2,798,491	20,849,856	115,157,181

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

2015	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	5,482,557	308,487	253,757	379,712	-	2,807,400	9,231,913
Repurchase agreements with banks	-	734,564	-	-	-	-	734,564
Customers' deposits	19,116,841	6,900,445	4,187,829	3,018,212	201,134	31,819,329	65,243,790
Islamic customers' deposits	4,643,417	788,575	481,618	369,843	24,955	2,083,082	8,391,490
Insurance and life assurance funds	-	-	-	-	-	1,559,704	1,559,704
Other liabilities	-	-	-	-	-	7,404,136	7,404,136
Medium-term loans	110,190	298,479	516,000	3,181,187	-	-	4,105,856
Equity attributable to shareholders of the Parent	-	-	-	-	-	17,768,610	17,768,610
Non-controlling interest	-	-	-	-	-	717,118	717,118
Total liabilities and equity	29,353,005	9,030,550	5,439,204	6,948,954	226,089	64,159,379	115,157,181
On Balance Sheet gap	34,237,944	5,188,126	130,646	1,180,405	2,572,402	(43,309,523)	-
Off Balance Sheet gap	(313,990)	211,605	98,150	(9,730)	13,965	-	-
Cumulative interest rate sensitivity gap	33,923,954	39,323,685	39,552,481	40,723,156	43,309,523	-	-

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
2014							
Assets							
Cash and balances with central banks	7,261,036	500,000	-	-	-	7,398,222	15,159,258
Deposits and balances due from banks	12,462,119	1,238,931	371,207	63,954	55,730	19,315	14,211,256
Other financial assets measured at fair value	797,157	537,155	312,463	368,112	-	1,194,447	3,209,334
Loans and advances measured at amortised cost	42,354,487	4,662,372	520,499	3,857,439	669,501	182,316	52,246,614
Islamic financing and investment products measured at amortised cost	4,534,273	164,984	176,369	547,500	342,628	33,340	5,799,094
Other financial assets measured at amortised cost	3,807,347	2,517,584	210,391	922,614	34,612	87,152	7,579,700
Other assets	-	-	-	-	-	6,011,997	6,011,997
Goodwill	-	-	-	-	-	26,588	26,588
Investment properties	-	-	-	-	-	490,317	490,317
Property and equipment	-	-	-	-	-	1,106,120	1,106,120
Total assets	71,216,419	9,621,026	1,590,929	5,759,619	1,102,471	16,549,814	105,840,278

Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

2014	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	6,862,866	245,310	119,695	-	-	996,662	8,224,533
Repurchase agreements with banks	623,036	-	-	-	-	-	623,036
Customers' deposits	22,980,935	4,038,474	4,235,095	2,694,518	89,415	29,266,940	63,305,377
Islamic customers' deposits	2,041,155	743,321	760,416	61,264	5,740	1,570,870	5,182,766
Insurance and life assurance funds	-	-	-	-	-	1,655,139	1,655,139
Other liabilities	-	-	-	-	-	5,922,634	5,922,634
Medium-term loans	183,650	220,380	91,825	3,512,388	-	-	4,008,243
Equity attributable to shareholders of the Parent	-	-	-	-	-	16,162,882	16,162,882
Non-controlling interest	-	-	-	-	-	755,668	755,668
Total liabilities and equity	32,691,642	5,247,485	5,207,031	6,268,170	95,155	56,330,795	105,840,278
On Balance Sheet gap	38,524,777	4,373,541	(3,616,102)	(508,551)	1,007,316	(39,780,981)	-
Off Balance Sheet gap	(341,278)	30,628	92,193	16,544	201,913	-	-
Cumulative interest rate sensitivity gap	38,183,499	42,587,668	39,063,759	38,571,752	39,780,981	-	-

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Market risk management (continued)

Currency risk management

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

	2015			2014		
	Net spot Position AED'000	**Forward position AED'000**	**Total AED'000**	Net spot position AED'000	Forward position AED'000	Total AED'000
U.S. Dollars	**12,182,344**	**(6,004,068)**	**6,178,276**	12,323,646	(4,060,028)	8,263,618
Qatari Riyals	**1,884,106**	**368,803**	**2,252,909**	1,067,579	(55,069)	1,012,510
Pound Sterling	**(377,285)**	**397,348**	**20,063**	(234,939)	331,152	96,213
Euro	**(3,076,294)**	**3,179,645**	**103,351**	(1,140,862)	1,155,846	14,984
Bahrain Dinar	**532,934**	**(5,245)**	**527,689**	530,557	(3,225)	527,332
Saudi Riyal	**(735,517)**	**841,538**	**106,021**	(522,310)	523,879	1,569
Japanese Yen	**(244,606)**	**210,342**	**(34,264)**	31,720	(59,564)	(27,844)
Swiss Francs	**(93,424)**	**92,691**	**(733)**	(366,538)	368,275	1,737
Kuwaiti Dinar	**91,587**	**(58,612)**	**32,975**	53,444	149,472	202,916
Chinese Yuan	**78,791**	**(78,815)**	**(24)**	92,493	(94,080)	(1,587)
Other	**395,864**	**191,643**	**587,507**	433,992	(341,025)	92,967
Total	**10,638,500**	**(864,730)**	**9,773,770**	12,268,782	(2,084,367)	10,184,415

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

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

Liquidity risk management

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

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

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

43 Risk management (continued)

Liquidity risk management (continued)

Mashreq's Board of Directors ("BOD") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy. Among Mashreq's Board of Directors, Mr. Abdul Aziz Abdulla Al Ghurair, the Bank's Chief Executive Officer and Director, is chiefly responsible for the oversight of Liquidity management within the Bank.

Mashreqbank's Head Office (HO) and International Banking Group (IBG) Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In formulating these policies, ALCOs take into consideration the bank's set up (including foreign branches), key business lines, the breadth and diversity of markets, products, and jurisdictions in which it operates, and home and host regulatory requirements.ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCOs meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions of all branches in the jurisdictions in which the bank is active, and for outlining these clearly in the bank's liquidity policies.

The members of ALCO are the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, the Head of Risk Management, the Head of International Banking and the Head of Treasury & Capital Markets.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, the Euro Medium Term Notes program was launched in 2005 and, to date; this has outstanding balance of AED 2.27 billion (2014: AED 2.17 billion) [Note 20(a)] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014. The Bank raised a US$ 500 million syndicated loan through its key relationship Banks in July 2014.

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

The Treasury function in the Group is responsible for managing liquidity and it follows strict guidelines for deployment of liquid assets within each liquidity bucket. Periodic stress tests are performed to ensure availability of funds during stressed situations.

Inter-bank borrowing lines and repurchase facilities with global banks and the Central Bank of U.A.E. are part of the contingency funding options maintained by the Treasury.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 **Risk management** (continued)

Liquidity risk management (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2015 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	17,383,313	1,300,000	740,150	-	-	19,423,463
Deposits and balances due from banks	10,828,896	2,452,057	1,436,148	242,683	50,206	15,009,990
Other financial assets measured at fair value	1,305,403	547,264	1,134,688	256,540	681,070	3,924,965
Loans and advances measured at amortised cost	19,273,866	4,766,025	3,704,998	16,398,763	9,411,418	53,555,070
Islamic financing and investment products measured at amortised cost	2,783,732	583,423	575,342	2,146,992	521,117	6,610,606
Other financial assets measured at amortised cost	498,459	238,192	704,942	3,547,669	3,003,810	7,993,072
Other assets	2,817,479	2,050,944	1,099,923	451,131	509,493	6,928,970
Goodwill	-	-	-	-	18,150	18,150
Investment properties	-	-	-	-	527,525	527,525
Property and equipment	-	-	-	-	1,165,370	1,165,370
Total assets	54,891,148	11,937,905	9,396,191	23,043,778	15,888,159	115,157,181

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	6,457,209	319,613	250,006	2,205,085	-	9,231,913
Repurchase agreements with banks	-	734,564	-	-	-	734,564
Customers' deposits	50,032,423	6,969,927	4,400,894	3,091,190	749,356	65,243,790
Islamic customers' deposits	6,726,415	788,658	481,618	369,843	24,956	8,391,490
Insurance and life assurance funds	-	-	1,036,170	523,534	-	1,559,704
Other liabilities	3,635,225	1,785,953	1,140,756	557,662	284,540	7,404,136
Medium-term loans	110,190	298,479	516,000	3,181,187	-	4,105,856
Equity attributable to shareholders of the Parent	-	-	-	-	17,768,610	17,768,610
Non-controlling interest	-	-	-	-	717,118	717,118
Total liabilities and equity	66,961,462	10,897,194	7,825,444	9,928,501	19,544,580	115,157,181

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2014 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	14,638,138	500,000	21,120	-	-	15,159,258
Deposits and balances due from banks	10,033,234	2,826,398	982,250	313,643	55,731	14,211,256
Other financial assets measured at fair value	672,539	410,754	310,061	546,955	1,269,025	3,209,334
Loans and advances measured at amortised Cost	18,885,925	3,744,449	3,077,645	16,768,200	9,770,395	52,246,614
Islamic financing and investment products measured at amortised cost	2,558,685	315,741	354,971	1,552,705	1,016,992	5,799,094
Other financial assets measured at amortised cost	763,736	76,015	218,654	3,522,607	2,998,688	7,579,700
Other assets	1,809,902	2,984,888	667,826	549,381	-	6,011,997
Goodwill	-	-	-	-	26,588	26,588
Investment properties	-	-	-	-	490,317	490,317
Property and equipment	-	-	-	-	1,106,120	1,106,120
Total assets	49,362,159	10,858,245	5,632,527	23,253,491	16,733,856	105,840,278

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	7,857,386	247,452	119,695	-	-	8,224,533
Repurchase agreements with banks	-	-	623,036	-	-	623,036
Customers' deposits	51,560,850	4,697,942	4,240,352	2,715,943	90,290	63,305,377
Islamic customers' deposits	3,611,920	743,426	760,416	61,264	5,740	5,182,766
Insurance and life assurance funds	-	-	1,108,859	546,280	-	1,655,139
Other liabilities	3,144,034	812,598	935,053	674,328	356,621	5,922,634
Medium-term loans	183,650	220,380	91,825	3,512,388	-	4,008,243
Equity attributable to shareholders of the Parent	-	-	-	-	16,162,882	16,162,882
Non-controlling interest	-	-	-	-	755,668	755,668
Total liabilities and equity	66,357,840	6,721,798	7,879,236	7,510,203	17,371,201	105,840,278

43 Risk management (continued)

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

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)

31 December 2015

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets measured at fair value				
Other financial assets measured at FVTPL				
- Debt securities	188,924	2,404,569	67,519	2,661,012
- Equities	16,548	-	508	17,056
- Mutual and other funds	261,935	-	327,807	589,742
Other financial assets measured at FVTOCI				
- Equities	402,783	-	216,650	619,433
- Mutual and other funds	37,722	-	-	37,722
Total	907,912	2,404,569	612,484	3,924,965
Other assets				
Positive fair value of derivatives	246,524	632,709	-	879,233
Other liabilities				
Negative fair value of derivatives	251,518	621,089	-	872,607

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

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)

31 December 2014

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets measured at fair value				
Other financial assets measured at FVTPL				
- Debt securities	342,969	1,305,177	23,185	1,671,331
- Equities	7,478	-	551	8,029
- Mutual and other funds	720,768	-	19,421	740,189
Other financial assets measured at FVTOCI				
- Equities	511,475	26,591	214,647	752,713
- Mutual and other funds	37,072	-	-	37,072
Total	1,619,762	1,331,768	257,804	3,209,334
Other assets				
Positive fair value of derivatives	300,772	772,665	-	1,073,437
Other liabilities				
Negative fair value of derivatives	306,367	769,565	-	1,075,932

There were no transfers between Level 1 and 2 during the years ended 31 December 2015 and 2014.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Fair value of financial instruments (continued)

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

	2015 AED'000	2014 AED'000
At 1 January	**214,647**	358,448
Purchases	**37,350**	1,006
Cost of sales	**(21,397)**	(14,182)
Transfers to level 1	**-**	(83,656)
Change in fair value	**(13,950)**	(46,969)
At 31 December	**216,650**	214,647

The investments classified under Level 3 category have been fair-valued based on information available for each investment. Based on the information available the valuation has been carried on net asset value or valuation provided by the portfolio managers.

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

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying	**Fair value**			
2015	**amount AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets:					
Other financial assets measured at amortised cost	**7,993,072**	**6,232,112**	**-**	**1,687,966**	**7,920,078**
2014					
Financial assets:					
Other financial assets measured at amortised cost	7,579,700	5,667,770	54,255	1,894,466	7,616,491

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

43 Risk management (continued)

Fair value of financial instruments measured at amortised cost (continued)

	Carrying	Fair value			
2015	**Amount AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial liabilities					
Medium-term notes	**2,269,356**	**1,434,794**	**-**	**811,281**	**2,246,075**
2014					
Financial liabilities					
Medium-term notes					
	2,171,743	1,707,766	-	434,861	2,142,627

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2015 and 2014:

	Reflected in consolidated statement of income		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	**Unfavourable change AED'000**	**Favourable change AED'000**	**Unfavourable change AED'000**
2015				
Other financial assets measured at fair value	**326,781**	**(326,781)**	**65,715**	**(65,715)**
2014				
Other financial assets measured at fair value	241,954	(241,954)	78,978	(78,978)

Majority of the derivatives financial instruments are back to back; therefore, any change to the fair value of the derivatives resulting from price inputs chances will have insignificant impact on the consolidated income statement or consolidated statement of comprehensive income.

Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)

44 Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of 31 December 2015 of AED 1 million (2014: AED 3 million).

45 Fund management

Makaseb Funds Company BSC and Mashreq Capital (DIFC) Limited (Note 36) manage a number of funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

46 Foreign restricted assets

Net assets equivalent to AED 91 million as at 31 December 2015 (2014: AED 85 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

47 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2015 were approved by the Board of Directors and authorised for issue on 27 January 2016.