MASHREQBANK PSC GROUP

Report and consolidated financial statements for the year ended 31 December 2017

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 2017

Contents **Pages**

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Mashreqbank psc (the "Bank") and its subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank psc and its subsidiaries, as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matters
Impairment of loans and advances and Islamic financing	
The management exercises significant judgment when determining both when and how much to record as loan impairment provisions. Because of the significance of these judgements and the size of loans and advances and Islamic financing, the audit of allowance for related impairment provisions is a key area of focus. At 31 December 2017, the total of gross loans and advances and Islamic finance was AED 66 billion (31 December 2016: AED 64 billion) against which allowance for impairment provisions of AED 3.2 billion were recorded (31 December 2016: AED 3.3 billion). Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. The accounting policies and critical judgments relative to the calculations of the impairment provisions on loans and advances and Islamic financing are summarised in Note 3.14 and Note 4.1 to the consolidated financial statements respectively. The Group uses two methods in its calculations of impairment provisions on loans and advances and Islamic financing:	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances. We tested the design, implementation and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the impairment calculation models including data inputs; • Controls over collateral valuation estimates; and • Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management. We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances and Islamic financing (continued)	
Individually assessed facilities These represent mainly corporate facilities 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 facilities are measured based on the present value of expected future cash flows discounted at the original effective interest rate or at the 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 facilties carrying value and its present value or recoverable amount calculated as above.	*Individually assessed facilities* We tested a sample of individual facilities (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether adequate impairments provisions had been recorded in a timely manner. Where impairment had been identified, we tested the estimation of the future expected cash flows prepared by management to support the calculation of impairment, challenging the assumptions, including realisation of collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral. We examined a sample of facilities which had not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate to support management's conclusion.
Collectively assessed facilities The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of performing retail and wholesale facilities which may be impaired but not identified as of the reporting date. Allowances against performing loans and advances are reassessed on a periodical basis using modelled basis for different portfolios with common features and allowances are adjusted accordingly based on the judgment of management and guidance received from the Central Bank of the UAE.	*Collectively assessed facilities* For the collective impairment models used by the Group, we tested a sample of the data used in the models as well as evaluating the model methodology and re-performing the calculations. For the key assumptions used in the model, we challenged management to provide objective evidence that they were appropriate and included all relevant risks. Further, we considered our industry experience and knowledge to consider the appropriateness of the provision. We recalculated the collective impairment provision as per the Bank's policies and IFRS and compared it with the calculations as per UAE Central Bank to ensure adequacy of the provision. We performed certain test procedures to ensure past due payments are reflected in the right bucket. We have also involved our IT auditors to provide us assurance on the accuracy of the ageing reports generated by the system and its related configuration.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">Valuation of Insurance contract liabilities</td></tr>
<tr><td>As at 31 December 2017, net insurance contract liabilities amounted to AED 1.6 billion (31 December 2016: AED 1.5 billion), as detailed in note 18 to these consolidated financial statements.

As set out in note 3.18 and note 4.6, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management.

This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves. A range of methods are used by management and the internal actuary/independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Furthermore, valuation of life insurance contract liabilities involves complex and subjective judgement made by management and the internal actuary/independent external actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities.

The valuation of these liabilities also depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. As a result of all of the above factors, insurance contract liabilities represent a significant risk for the Group.</td><td>Our audit procedures included:

• Testing the underlying Group data to source documentation.
• Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group.
• Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process.
• Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters.
• Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations.

In addition, with the assistance of our actuarial specialists, we:

• performed necessary reviews to ascertain whether the results are appropriate for financial disclosure.
• reviewed the actuarial report compiled by the independent external actuaries of the Group and calculations underlying these provisions, particularly the following areas;
    • appropriateness of the calculation methods and approach (actuarial best practice)
    • review of assumptions
    • sensitivities to key assumptions
    • risk profiles
    • consistency between valuation periods
    • general application of financial and mathematical rules</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus because the Group's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The incorporated key controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We also tested the accuracy and completeness of key computer generated reports heavily used in our testing such as aging report of overdue loans and advances. In events deficiencies are noted during our testing affecting applications and databases, we performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. In addition and where appropriate, we extended the scope of our substantive audit procedures.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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 (m) to the consolidated financial statements, the Group has purchased or invested in shares during the year ended 31 December 2017;

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

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 year ended 31 December 2017 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 2017; and

viii) Note 31 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2017.

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.

Musa Ramahi
Registration No. 872

Deloitte & Touche (M.E.)
Building 3, Level 6, Emaar Square, Downtown Dubai
P.O.Box 4254, Dubai, United Arab Emirates

28 January 2018

Consolidated statement of financial position at 31 December 2017

	Notes	31 December 2017 AED'000	31 December 2017 USD'000 Equivalent	31 December 2016 AED'000	31 December 2016 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**16,899,076**	**4,600,892**	18,629,582	5,072,034
Deposits and balances due from banks	6	**20,135,427**	**5,482,011**	18,667,750	5,082,426
Other financial assets measured at fair value	7	**1,580,545**	**430,314**	2,419,199	658,644
Loans and advances measured at amortised cost	8	**53,394,165**	**14,536,936**	53,428,461	14,546,273
Islamic financing and investment products measured at amortised cost	9	**9,339,467**	**2,542,735**	7,565,063	2,059,641
Other financial assets measured at amortised cost	7	**12,583,404**	**3,425,920**	10,849,298	2,953,797
Other assets	10	**9,381,071**	**2,554,062**	9,552,316	2,600,685
Goodwill	11	**14,414**	**3,925**	15,365	4,183
Investment properties	12	**517,691**	**140,945**	520,864	141,809
Property and equipment	13	**1,342,976**	**365,635**	1,165,638	317,353
Total assets		**125,188,236**	**34,083,375**	122,813,536	33,436,845
LIABILITIES AND EQUITY					
Liabilities					
Deposits and balances due to banks	14	**9,313,430**	**2,535,647**	8,932,076	2,431,820
Repurchase agreements with banks	15	**557,183**	**151,697**	605,600	164,879
Customers' deposits	16	**69,380,208**	**18,889,248**	69,947,124	19,043,595
Islamic customers' deposits	17	**6,680,874**	**1,818,915**	7,093,383	1,931,223
Insurance and life assurance funds	18	**1,582,695**	**430,900**	1,510,758	411,314
Other liabilities	19	**10,321,394**	**2,810,072**	10,267,090	2,795,287
Medium-term loans	20	**6,226,032**	**1,695,081**	4,971,860	1,353,624
Total liabilities		**104,061,816**	**28,331,560**	103,327,891	28,131,742
Equity					
Capital and reserves					
Issued and paid up capital	21(a)	**1,775,308**	**483,340**	1,775,308	483,340
Statutory and legal reserves	21(b)	**901,621**	**245,473**	899,351	244,855
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment	21(d)	**(59,163)**	**(16,108)**	(298,562)	(81,286)
Investments revaluation reserve	21(e)	**(184,989)**	**(50,365)**	(248,283)	(67,597)
Cash flow hedging reserve	21(f)	**-**	**-**	7,624	2,076
Retained earnings		**17,618,669**	**4,796,806**	16,310,198	4,440,566
Equity attributable to owners of the Parent		**20,363,446**	**5,544,090**	18,757,636	5,106,898
Non-controlling interests	22	**762,974**	**207,725**	728,009	198,205
Total equity		**21,126,420**	**5,751,815**	19,485,645	5,305,103
Total liabilities and equity		**125,188,236**	**34,083,375**	122,813,536	33,436,845

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 statement of profit or loss for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 AED'000	Year ended 31 December 2017 USD'000 Equivalent	Year ended 31December 2016 AED'000	Year ended 31December 2016 USD'000 Equivalent
Interest income	24	**4,684,098**	**1,275,279**	4,466,079	1,215,921
Income from Islamic financing and investment products	25	**406,676**	**110,720**	347,555	94,624
Total interest income and income from Islamic financing and investment products		**5,090,774**	**1,385,999**	4,813,634	1,310,545
Interest expense	26	**(1,440,450)**	**(392,173)**	(1,345,530)	(366,330)
Distribution to depositors – Islamic products	27	**(151,901)**	**(41,356)**	(105,737)	(28,788)
Net interest income and income from Islamic products net of distribution to depositors		**3,498,423**	**952,470**	3,362,367	915,427
Fee and commission income	28	**2,988,476**	**813,634**	3,049,142	830,150
Fee and commission expenses	28	**(1,430,877)**	**(389,566)**	(1,364,469)	(371,486)
Net fee and commission income		**1,557,599**	**424,068**	1,684,673	458,664
Net investment income	29	**187,368**	**51,012**	262,517	71,472
Other income, net	30	**772,266**	**210,255**	859,068	233,887
Operating income		**6,015,656**	**1,637,805**	6,168,625	1,679,450
General and administrative expenses	31	**(2,360,756)**	**(642,732)**	(2,406,701)	(655,241)
Allowances for impairment, net	32	**(1,487,682)**	**(405,032)**	(1,733,659)	(472,001)
Profit before taxes		**2,167,218**	**590,041**	2,028,265	552,208
Overseas income tax expense		**(77,688)**	**(21,152)**	(74,354)	(20,243)
Profit for the year		**2,089,530**	**568,889**	1,953,911	531,965
Attributable to:					
Owners of the Parent		**2,052,320**	**558,759**	1,926,412	524,479
Non-controlling interests		**37,210**	**10,130**	27,499	7,486
		2,089,530	**568,889**	1,953,911	531,965
Earnings per share	33	**AED 11.56**	**USD 3.15**	AED 10.85	USD 2.95

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

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Year ended 31 December 2017		Year ended 31 December 2016	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	**2,089,530**	**568,889**	1,953,911	531,965
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net [Note 7(l)]	**47,133**	**12,832**	12,330	3,357
Items that will be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	**240,636**	**65,515**	(236,665)	(64,434)
Loss on hedging instruments designated in hedges of the net assets of foreign operations	**(1,237)**	**(337)**	(1,287)	(350)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	**(7,624)**	**(2,076)**	(1,597)	(435)
Total other comprehensive gain/(loss) for the year	**278,908**	**75,934**	(227,219)	(61,862)
Total comprehensive income for the year	**2,368,438**	**644,823**	1,726,692	470,103
Attributable to:				
Owners of the Parent	**2,315,933**	**630,529**	1,699,146	462,604
Non-controlling interests	**52,505**	**14,294**	27,546	7,499
	2,368,438	**644,823**	1,726,692	470,103

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	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 2016	1,775,308	896,595	312,000	(60,610)	(276,416)	9,221	15,112,512	17,768,610	717,118	18,485,728
Profit for the year	-	-	-	-	-	-	1,926,412	1,926,412	27,499	1,953,911
Other comprehensive income/(loss) for the year	-	-	-	(237,952)	12,283	(1,597)	-	(227,266)	47	(227,219)
Total comprehensive income/(loss) for the year	-	-	-	(237,952)	12,283	(1,597)	1,926,412	1,699,146	27,546	1,726,692
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	15,850	-	(15,850)	-	-	-
Transfer to statutory and legal reserves	-	2,756	-	-	-	-	(2,756)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,120)	(710,120)	(16,655)	(726,775)
Balance at 31 December 2016	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,310,198	18,757,636	728,009	19,485,645
Profit for the year ended 31 December 2017	-	-	-	-	-	-	2,052,320	2,052,320	37,210	2,089,530
Other comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	-	263,613	15,295	278,908
Total comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	2,052,320	2,315,933	52,505	2,368,438
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	31,456	-	(31,456)	-	-	-
Transfer to statutory and legal reserves	-	2,270	-	-	-	-	(2,270)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	(17,540)	(727,663)
Balance at 31 December 2017	**1,775,308**	**901,621**	**312,000**	**(59,163)**	**(184,989)**	-	**17,618,669**	**20,363,446**	**762,974**	**21,126,420**

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

Consolidated statement of cash flows for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 AED'000	Year ended 31 December 2017 USD'000 Equivalent	Year ended 31 December 2016 AED'000	Year ended 31 December 2016 USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		**2,167,218**	**590,041**	2,028,265	552,208
Adjustments for:					
Depreciation of property and equipment	13	**150,600**	**41,002**	155,611	42,366
Allowances for impairment, net	32	**1,487,682**	**405,032**	1,733,659	472,001
Loss/(gain) on disposal of property and equipment	30	**1,566**	**426**	(53,837)	(14,658)
Reversal of impairment on property and equipment	13	**-**	**-**	(35,171)	(9,576)
Loss from disposal of investment properties	30	**300**	**82**	250	69
Fair value adjustments of other financial assets measured at FVTPL	29	**(30,380)**	**(8,271)**	(6,310)	(1,718)
Fair value adjustments of investment properties	30	**773**	**210**	2,161	588
Net realised gain from sale of other financial assets measured at FVTPL	29	**(44,744)**	**(12,182)**	(24,029)	(6,542)
Dividend income from financial assets measured at FVTOCI	29	**(22,476)**	**(6,119)**	(26,878)	(7,318)
Net realised (gain)/loss from sale of other financial assets measured at amortised cost	29	**(8,636)**	**(2,351)**	490	133
Fair value adjustment – derivatives	30	**(64)**	**(17)**	(6,954)	(1,893)
Operating cash flows before changes in operating assets and liabilities		**3,701,839**	**1,007,853**	3,767,257	1,025,660
Decrease/(increase) in deposits with central banks		**2,015,817**	**548,820**	(430,654)	(117,249)
Increase in deposits and balances due from banks maturing after three months		**(915,762)**	**(249,323)**	(1,997,519)	(543,839)
Increase in loans and advances measured at amortised cost		**(1,319,000)**	**(359,107)**	(1,512,319)	(411,739)
Increase in Islamic financing and investment products measured at amortised cost		**(1,867,335)**	**(508,395)**	(1,011,571)	(275,407)
Decrease/(increase) in other assets		**135,979**	**37,021**	(2,651,224)	(721,814)
Decrease in other financial assets carried at FVTPL		**771,440**	**210,030**	210,633	57,347
Decrease in repurchase agreements with banks		**(48,417)**	**(13,182)**	(128,964)	(35,111)
(Decrease)/increase in customers' deposits		**(566,916)**	**(154,347)**	4,703,334	1,280,516
Decrease in Islamic customers' deposits		**(412,509)**	**(112,308)**	(1,298,107)	(353,419)
Increase in medium-term loans (not qualified as Tier 2 capital)		**1,254,172**	**341,457**	866,004	235,776
Increase/(decrease) in deposits and balances due to banks		**381,354**	**103,826**	(299,837)	(81,633)
Increase/(decrease) in insurance and life assurance funds		**71,937**	**19,585**	(48,946)	(13,326)
Increase in other liabilities		**54,304**	**14,785**	2,862,954	779,459
Overseas tax paid		**(77,688)**	**(21,151)**	(74,354)	(20,243)
Net cash generated from operating activities		**3,179,215**	**865,564**	2,956,687	804,978

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

Consolidated statement of cash flows
for the year ended 31 December 2017 (continued)

	Notes	Year ended 31 December 2017 AED'000	Year ended 31 December 2017 USD'000 Equivalent	Year ended 31 December 2016 AED'000	Year ended 31 December 2016 USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	**(332,614)**	**(90,556)**	(136,063)	(37,043)
Proceeds from sale of property and equipment		**3,110**	**847**	69,192	18,838
Proceeds from sale of investment properties		**2,100**	**572**	4,250	1,157
Increase in other financial assets measured at amortised cost		**(1,725,470)**	**(469,771)**	(1,419,720)	(386,529)
Net decrease/(increase) in other financial assets measured at FVTOCI		**189,471**	**51,585**	(99,194)	(27,006)
Dividend income from other financial assets measured at FVTOCI	29	**22,476**	**6,119**	26,878	7,318
Net cash used in investing activities		**(1,840,927)**	**(501,204)**	(1,554,657)	(423,265)
Cash flows from financing activities					
Dividend paid		**(727,663)**	**(198,111)**	(726,775)	(197,870)
Net cash used in financing activities		**(727,663)**	**(198,111)**	(726,775)	(197,870)
Net increase in cash and cash equivalents		**610,625**	**166,249**	675,255	183,843
Net foreign exchange difference		**231,775**	**63,100**	(239,549)	(65,219)
Cash and cash equivalents at 1 January		**20,313,437**	**5,530,476**	19,877,731	5,411,852
Cash and cash equivalents at 31 December	35	**21,155,837**	**5,759,825**	20,313,437	5,530,476

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

Notes to the consolidated financial statements
for the year ended 31 December 2017

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 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs 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.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>**New and revised IFRSs**</u>	**Effective for annual periods <u>beginning on or after</u>**
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011).*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: ➢ there is consideration that is denominated or priced in a foreign currency; ➢ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ➢ the prepayment asset or deferred income liability is non-monetary.	1 January 2018

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 2 *Share-Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
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.	1 January 2018

- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (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 (continued)

<u>**New and revised IFRSs**</u>	**Effective for annual periods** <u>**beginning on or after**</u>
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2021
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. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application 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 IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has in previous years adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments and plans to adopt the final phase of IFRS 9 (impairment and hedge accounting) on the required effective date from 1 January 2018. The Group will avail of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets resulting from the impairment assessment as required by IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Group has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group, until the Group presents its first financial statements that include the date of initial application.

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

2.2 New and revised IFRS in issue but not yet effective (continued)

(a) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). For revolving facilities including credit cards and overdrafts, the Bank measures ECLs over its contractual maturity period.

The Group has assessed the impairment provisions under IFRS 9 based on a set of inputs and assumptions that include available forward-looking information as economic inputs, significant credit deterioration parameters, Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure At Default ("EAD"). It requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. Accordingly, the estimated impact of adopting the final phase of IFRS 9 will result in an increase in allowance for impairment by 0.91% of the total risk weighted assets as presented in note 42 (a) to the consolidated financial statements. The Group has estimated the impact of adopting of IFRS 9 by running their calculation on 30 November 2017 figures.

For financial guarantee contracts, the Group will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

(b) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group has implemented the system and controls changes that it believes will be necessary to capture the required data.

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.

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 their 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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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

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

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

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

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

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

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

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 Bank 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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

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 *Financial Instruments: Recognition and Measurement* 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.

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 Summary of significant accounting policies (continued)

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 attributable 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 statement of profit or loss using the effective interest method. Interest income from other financial assets measured at FVTPL is recognised within 'net investment income' in the consolidated statement of profit or loss.

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.

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)*.

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

Fee and commission income and expenses

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

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

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

Dividend revenue

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

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.

3.7.1 The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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.

3.7.2 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 3.9). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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 statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a conversion rate of USD 1.00 = AED 3.673.

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

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 statement of profit or loss in the period in which they arise except for:

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

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.9 Borrowing costs

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

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

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

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

	Years
Properties for own use	20 – 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, 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 statement of profit or loss.

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

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 statement of profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss 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). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3.13 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments

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

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

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.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

The Bank classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

Financial assets at amortised cost

A financial asset measured at amortised cost are categorised under such category if both of the following conditions are met:

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

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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:

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

(b) 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

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 statement of profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss 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)

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

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. Irrevocable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Notes to the consolidated financial statements for the year ended 31 December 2017 (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)

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 statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the 'net investment income' line item in the consolidated statement of profit or loss. 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 statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS and is included in the net gain or loss described above.

Reclassification

Reclassification of financial assets

When, and only when, the Bank changes its business model for managing financial assets it reclassifies all affected financial assets. If such a reclassification is applied prospectively from the reclassification date. It is not required under IFRS 9 to restate any previously recognised gains, losses (including impairment gains or losses) or interest.

Reclassification from FVTPL to Amortised Cost

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

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) and are measured subsequently at amortised cost. Interest income is recognised in the consolidated statement of profit or loss.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Foreign exchange gains and losses

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

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss; 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 statement of profit or loss.

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 statement of profit or loss.

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 statement of profit or loss 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

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.

(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 the 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 the 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.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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.

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 statement of profit or loss.

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 statement of profit or loss, 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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

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 statement of profit or loss.

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.

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 statement of profit or loss.

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.

Derecognition 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 statement of profit or loss.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

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 incurred 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.

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 *Financial Instruments* 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 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments

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

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

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

Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

3.18 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

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

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

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

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

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.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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.

3.18.5 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

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

(c) Life assurance fund

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

(d) Unit-linked liabilities

For unit-linked policies, 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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

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.

3.18.8 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 statement of profit or loss.

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

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

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

(iii) Revenue recognition policy

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy (continued)

Murabaha

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

Ijara

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

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'h 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

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 statement of profit or loss 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.

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 judgment 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 the 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 the 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

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, recognised market accepted pricing models and from counterparty statements. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(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 by observing market pricing data. When valuing instruments by reference to comparable instruments, management takes into account the maturity and structure with which the position held is being compared.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

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

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 is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Cash on hand	**1,150,663**	1,049,505
Balances with central banks:		
Current accounts and other balances	**6,958,948**	6,774,795
Statutory deposits	**6,639,465**	6,905,282
Certificates of deposit	**2,150,000**	3,900,000
	16,899,076	18,629,582

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

	31 December 2017 AED'000	31 December 2016 AED'000
Balances within the U.A.E.	**11,406,485**	12,048,216
Balances outside the U.A.E.	**5,492,591**	6,581,366
	16,899,076	18,629,582

(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 1.07% (31 December 2016: 0.74%) 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:

	31 December 2017 AED'000	31 December 2016 AED'000
Demand	**1,838,441**	1,418,631
Overnight	**32,547**	55,000
Time	**18,264,439**	17,194,119
	20,135,427	18,667,750
Less: Allowance for impairment	**-**	-
	20,135,427	18,667,750

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

	31 December 2017 AED'000	31 December 2016 AED'000
Banks within the U.A.E.	**3,218,938**	3,454,654
Banks outside the U.A.E.	**16,916,489**	15,213,096
	20,135,427	18,667,750
Less: Allowance for impairment	**-**	-
	20,135,427	18,667,750

(c) *Allowance for impairment movement:*

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	**-**	122
Charge during the year (Note 32)	**5,174**	-
Written off during the year	**(5,174)**	-
Reversal of interest in suspense	**-**	(122)
At end of the year	**-**	-

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

7 Other financial assets

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

	31 December 2017 AED'000	31 December 2016 AED'000
Other financial assets measured at fair value		
(i) **Financial assets measured at fair value through profit and loss (FVTPL)**		
Debt securities	**437,727**	1,113,396
Equities		
Quoted	**3,548**	-
Unquoted	**222**	215
	3,770	215
Mutual and other funds	**512,707**	536,909
	954,204	1,650,520
(ii) **Financial assets measured at fair value through other comprehensive income (FVTOCI)**		
Equities		
Quoted	**355,543**	384,214
Unquoted	**259,886**	348,294
	615,429	732,508
Mutual and other funds [Note 7(g)]	**10,912**	36,171
	626,341	768,679
Total other financial assets measured at fair value (A)	**1,580,545**	2,419,199
(iii) **Financial assets measured at amortised cost**		
Debt securities	**12,583,404**	10,961,296
Less: Allowance for impairment	**-**	(111,998)
Total other financial assets measured at amortised cost (B)	**12,583,404**	10,849,298
Total other financial assets [(A) +(B)]	**14,163,949**	13,268,497

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

7 **Other financial assets** (continued)

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

	31 December 2017 AED'000	31 December 2016 AED'000
Balances within the U.A.E.	**3,316,519**	3,494,333
Balances outside the U.A.E.	**10,847,430**	9,774,164
	14,163,949	13,268,497

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

	31 December 2017 AED'000	31 December 2016 AED'000
Government and Public Sector	**7,914,696**	5,935,271
Commercial and Business	**473,889**	1,582,603
Financial Institutions	**5,759,337**	5,471,961
Other	**16,027**	278,662
	14,163,949	13,268,497

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

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At the beginning of the year	**111,998**	111,998
Written off during the year	**(111,998)**	-
At end of the year	**-**	111,998

(e) The fair value of other financial assets measured at amortised cost amounted to AED 12.58 billion as of 31 December 2017 (31 December 2016: AED 10.76 billion) (Note 43).

(f) At 31 December 2017, certain financial assets measured at amortised costs included debt securities aggregating to notional value of AED 584 million (fair value of AED 597 million) [31 December 2016: notional value of AED 623 million (fair value of AED 634 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 557 million (31 December 2016: AED 606 million) (Note 15).

(g) Other financial assets measured at FVTOCI include AED 11 million (31 December 2016: AED 36 million) which represents investments in the Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and fair value of the fund is based on the quoted market price.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

7 **Other financial assets** (continued)

(h) Other financial assets measured at FVTPL include AED 174 million (31 December 2016: AED 225 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund and Mashreq Al Islami Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the quoted market price.

(i) As of 31 December 2017, 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 2017, dividends received from financial assets measured at FVTOCI amounting to AED 22 million (31 December 2016: AED 27 million) were recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) During the year ended 31 December 2017, change in fair value of other financial assets measured at FVTPL amounted to a profit of AED 30 million (31 December 2016: a profit of AED 6 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(l) During the year ended 31 December 2017, change in fair value of financial assets measured at FVTOCI amounted to a profit of AED 47 million (31 December 2016: a profit of AED 12 million) and was recognised in the consolidated statement of comprehensive income.

(m) During the year ended 31 December 2017, the Group purchased and disposed equity shares amounted to AED 585 million (31 December 2016: 250 million) and AED 754 million (31 December 2016: 174 million) respectively.

(n) During the year ended 31 December 2017, AED nil (31 December 2016: AED 1.4 billion) investments measured at FVTPL were reclassified to other financial assets measured at amortised cost.

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:

	31 December 2017 AED'000	31 December 2016 AED'000
Loans	**49,882,585**	48,720,940
Overdrafts	**3,616,522**	4,684,243
Credit cards	**2,508,764**	2,784,011
Other	**455,499**	459,800
	56,463,370	56,648,994
Less: Allowance for impairment	**(3,069,205)**	(3,220,533)
	53,394,165	53,428,461

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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:

	31 December 2017 AED'000	31 December 2016 AED'000
Manufacturing	**4,065,460**	3,864,320
Construction	**7,007,373**	5,503,953
Trade	**8,089,372**	9,010,501
Transport and communication	**3,687,823**	3,844,615
Services	**7,305,890**	5,698,416
Financial institutions	**1,250,621**	1,824,699
Personal	**15,956,457**	16,581,261
Government and related enterprises	**9,100,374**	10,304,888
Other	**-**	16,341
	56,463,370	56,648,994
Less: Allowance for impairment	**(3,069,205)**	(3,220,533)
	53,394,165	53,428,461

(c) In certain cases, the Group continues to carry certain 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 statement of profit or loss. The value of loans and advances on which interest is not taken to consolidated statement of profit or loss, including fully provided accounts, amounted to AED 1.94 billion at 31 December 2017 (31 December 2016: AED 2.20 billion) (Note 43).

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

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	**3,220,533**	2,766,169
Impairment allowance for the year (Note 32)	**792,976**	903,225
Interest in suspense	**166,445**	117,174
Exchange rate and other adjustments	**17,328**	(46,986)
Recoveries during the year (Note 32)	**-**	(3,900)
Written off during the year	**(1,128,077)**	(515,149)
At end of the year	**3,069,205**	3,220,533

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

8 Loans and advances measured at amortised cost (continued)

(e) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk 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:

	31 December 2017 AED'000	31 December 2016 AED'000
Financing		
Murabaha	**5,699,170**	3,694,743
Ijara	**3,900,129**	3,122,514
	9,599,299	6,817,257
Investment		
Mudaraba	**17,866**	232,355
Wakala	**30,278**	728,496
	48,144	960,851
Total	**9,647,443**	7,778,108
Less: Unearned income	**(190,849)**	(157,800)
Allowance for impairment	**(117,127)**	(55,245)
	9,339,467	7,565,063

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:

	31 December 2017 AED'000	31 December 2016 AED'000
Manufacturing	**617,632**	605,964
Construction	**2,078,178**	1,988,459
Trade	**752,398**	799,626
Transport and communication	**256,280**	323,846
Services	**2,900,735**	1,835,386
Financial institutions	**464,216**	278,256
Personal	**2,124,242**	1,783,541
Government and related enterprises	**453,762**	163,030
Total	**9,647,443**	7,778,108
Less: Unearned income	**(190,849)**	(157,800)
Allowance for impairment	**(117,127)**	(55,245)
	9,339,467	7,565,063

(c) The value of Islamic financing and investment products on which profit is not taken to consolidated statement of profit or loss, including fully provided accounts, amounted to AED 281 million as at 31 December 2017 (31 December 2016: AED 71 million) (Note 43).

(d) *Allowance for impairment movement*:

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	**55,245**	48,631
Impairment allowance during the year, net (Note 32)	**57,320**	19,775
Profit/(reversal of profit) in suspense	**5,957**	(145)
Written off during the year	**(1,395)**	(13,016)
At end of the year	**117,127**	55,245

(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 2017 (continued)

10 Other assets

	31 December 2017 AED'000	31 December 2016 AED'000
Interest receivable	**199,276**	237,529
Property acquired in settlement of debts*	**-**	114,498
Prepayments	**119,419**	93,349
Acceptances**	**6,379,818**	5,831,534
Positive fair value of derivatives (Note 41)	**492,580**	863,918
Insurance related receivables	**1,491,343**	1,728,520
Credit card interchange receivables	**119,063**	94,405
Taxes paid in advance	**86,206**	60,309
Other	**493,366**	528,254
	9,381,071	9,552,316

* As of 31 December 2017, property acquired in settlement of debts includes land with a cost of AED 62 million which was fully provided (31 December 2016: AED 226 million against which a provision of AED 113 million was held). The land 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% (31 December 2016: 32.61%).

12 Investment properties

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At fair value		
At beginning of the year	**520,864**	527,525
Change in fair value during the year (Note 30)	**(773)**	(2,161)
Disposals during the year	**(2,400)**	(4,500)
At end of the year	**517,691**	520,864

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

12 Investment properties (continued)

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 2017 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.

The fair value of the Group's investment properties is based on unobservable market inputs, i.e. Level 3.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

13 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Capital work-in-progress AED'000	Total AED'000
Cost					
At 1 January 2016	1,078,909	500,547	484,434	43,441	2,107,331
Additions during the year	5,336	39,981	77,415	13,331	136,063
Reversal of impairment	35,171	-	-	-	35,171
Transfers	-	18,936	-	(18,936)	-
Disposals/write-offs	(10,660)	(56,691)	(54,538)	-	(121,889)
At 31 December 2016	1,108,756	502,773	507,311	37,836	2,156,676
Additions during the year	**112**	**43,258**	**87,089**	**202,155**	**332,614**
Transfers	**-**	**31,493**	**-**	**(31,493)**	**-**
Disposals/write-offs	**(262,968)**	**(84,617)**	**(106,779)**	**-**	**(454,364)**
At 31 December 2017	**845,900**	**492,907**	**487,621**	**208,498**	**2,034,926**
Accumulated depreciation and impairment					
At 1 January 2016	396,816	311,047	234,098	-	941,961
Charge for the year (Note 31)	19,854	63,154	72,603	-	155,611
Eliminated on disposals/write-offs	(2,645)	(54,713)	(49,176)	-	(106,534)
At 31 December 2016	414,025	319,488	257,525	-	991,038
Charge for the year (Note 31)	**18,416**	**58,604**	**73,580**	**-**	**150,600**
Eliminated on disposals/write-offs	**(262,921)**	**(80,534)**	**(106,233)**	**-**	**(449,688)**
At 31 December 2017	**169,520**	**297,558**	**224,872**	**-**	**691,950**
Carrying amount					
At 31 December 2017	**676,380**	**195,349**	**262,749**	**208,498**	**1,342,976**
At 31 December 2016	694,731	183,285	249,786	37,836	1,165,638

14 Deposits and balances due to banks

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

	31 December 2017 AED'000	31 December 2016 AED'000
Time	**6,091,703**	5,743,217
Demand	**1,813,553**	1,538,551
Overnight	**1,408,174**	1,650,308
	9,313,430	8,932,076

(b) The above represent borrowings from:

	31 December 2017 AED'000	31 December 2016 AED'000
Banks within the U.A.E.	**2,441,575**	1,734,671
Banks outside the U.A.E.	**6,871,855**	7,197,405
	9,313,430	8,932,076

15 Repurchase agreements with banks

Repricing	**Maturity date**	**Interest rate**	**31 December 2017 AED'000**	31 December 2016 AED'000
1 month	January 2017	1.43% per annum	-	35,028
3 months	March 2017	1.43% per annum	-	468,400
3 months	March 2017	1.53% per annum	-	102,172
3 months	January 2018	1.74% per annum	**557,183**	-
			557,183	605,600

Collateral given against these Repo borrowings is disclosed in Note 7(f) to the consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

16 Customers' deposits

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

	31 December 2017 AED'000	31 December 2016 AED'000
Current and other accounts	**41,112,782**	41,053,475
Saving accounts	**3,371,737**	3,406,698
Time deposits	**24,895,689**	25,486,951
	69,380,208	69,947,124

(b) Analysis by industry sector:

	31 December 2017 AED'000	31 December 2016 AED'000
Government and public sector	**6,584,226**	4,915,852
Commercial and business	**44,473,956**	46,572,635
Personal	**15,290,216**	14,774,919
Financial institutions	**3,004,561**	3,553,712
Other	**27,249**	130,006
	69,380,208	69,947,124

17 Islamic customers' deposits

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

	31 December 2017 AED'000	31 December 2016 AED'000
Current and other accounts	**3,382,619**	3,784,930
Saving accounts	**141,869**	124,373
Time deposits	**3,156,386**	3,184,080
	6,680,874	7,093,383

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

	31 December 2017 AED'000	31 December 2016 AED'000
Government and public sector	**137,302**	833,475
Commercial and business	**3,153,294**	3,177,647
Personal	**831,145**	626,409
Financial institutions	**2,559,133**	2,455,852
	6,680,874	7,093,383

18 Insurance and life assurance funds

	Outstanding claims AED'000	**Unearned premium reserve AED'000**	**Additional reserve AED'000**	**Life assurance fund AED'000**	**Insurance related other fund AED'000**	**Total AED'000**
At 1 January 2016	397,593	489,497	149,082	523,532	-	1,559,704
Increase/(decrease)	(21,528)	30,075	(34,153)	(32,843)	9,503	(48,946)
At 31 December 2016	376,065	519,572	114,929	490,689	9,503	1,510,758
Increase/(decrease)	**(4,817)**	**60,630**	**2,875**	**13,649**	**(400)**	**71,937**
At 31 December 2017	**371,248**	**580,202**	**117,804**	**504,338**	**9,103**	**1,582,695**

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 all 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 2017 (continued)

19 Other liabilities

	31 December 2017 AED'000	31 December 2016 AED'000
Interest payable	**371,635**	320,903
Negative fair value of derivatives (Note 41)	**440,829**	872,229
Acceptances*	**6,379,818**	5,831,534
Insurance premium collected in advance	**732,757**	928,873
Accrued expenses	**624,844**	536,747
Income received in advance	**169,358**	190,342
Pay orders issued	**433,072**	374,654
Provision for employees' end of service indemnity**	**202,318**	189,946
Provision for taxation	**110,463**	87,935
Other	**856,300**	933,927
	10,321,394	10,267,090

* 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 189 million (31 December 2016: AED 176 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

	31 December 2017 AED'000	31 December 2016 AED'000
Medium term notes	**6,226,032**	3,135,360
Syndicated Loan	**-**	1,836,500
	6,226,032	4,971,860

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

20 Medium-term loans (continued)

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

Year	**31 December 2017 AED'000**	31 December 2016 AED'000
2017	-	2,875,365
2018	**5,017,966**	190,885
2019	**249,530**	69,110
2020	**436,970**	-
2021	**183,650**	-
2022	**337,916**	-
	6,226,032	3,135,360

Medium term notes are denominated in following currencies:

	31 December 2017 AED'000	31 December 2016 AED'000
U.S. Dollars	**5,141,833**	2,329,784
Japanese Yen	**573,156**	297,896
Swiss Francs	**190,379**	111,412
Chinese Yuan	**142,390**	135,790
Euro	**120,335**	139,403
Australian Dollars	**57,939**	-
Kuwaiti Dinar	-	121,075
	6,226,032	3,135,360

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

During the year ended 31 December 2017, new medium-term notes of AED 5.96 billion were issued and AED 2.88 billion of medium-term notes were redeemed.

Included in 31 December 2016 was an AED 1.02 billion subordinated floating rate note ("FRN") which qualified and was approved by U.A.E. Central Bank as Tier 2 subordinated loan capital until 2012. This was being consequently amortised at the rate of 20% per annum for capital adequacy calculation purposes and had matured in January 2017.

(b) During the year ended 31 December 2014, the Group signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility was to finance general corporate activities. The facility had a tenor of 3 years and was fully settled upon maturity on 14 July 2017. The facility had carried an interest rate of LIBOR plus a margin of 125 basis points, which was paid on a quarterly basis.

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2017, 177,530,823 ordinary shares of AED 10 each (31 December 2016: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(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.

(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 statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a profit of AED 47 million (31 December 2016: profit of AED 12 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 statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

21 Issued and paid up capital and reserves (continued)

(f) **Cash flow hedging reserve** (continued)

The movement of the cash flow hedging reserve is below:

	31 December 2017 AED'000	31 December 2016 AED'000
At beginning of the year	**7,624**	9,221
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	**-**	53,333
Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated statement of profit or loss	**(7,624)**	(54,930)
At end of the year	**-**	7,624

(g) **Dividends on equity instruments**

At the Annual General Meeting of the shareholders held on 6 March 2017, the shareholders approved a cash dividend of 40% for the year ended 31 December 2016 (31 December 2015: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2015: AED 710 million).

22 Non-controlling interests

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	**728,009**	717,118
Profit for the year	**37,210**	27,499
Other comprehensive income for the year	**15,295**	47
Dividends paid	**(17,540)**	(16,655)
At end of the year	**762,974**	728,009

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

23 Contra accounts and commitments

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

	31 December 2017 AED'000	31 December 2016 AED'000
(i) Contra accounts (memoranda)		
Guarantees	**41,576,490**	38,285,010
Letters of credit	**5,384,712**	4,743,855
	46,961,202	43,028,865
(ii) Commitments for acquisition of property and equipment	**657,789**	692,262
(iii) Operating lease commitments	**98,753**	93,181
Total contra accounts and commitments	**47,717,744**	43,814,308

(b) Irrevocable undrawn facilities commitments as at 31 December 2017 amounted to AED 6.12 billion (31 December 2016: AED 7.97 billion).

(c) Contra accounts – maturity profile

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

31 December 2017

	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	**11,482,029**	**1,384,484**	**3,289,513**	**10,453,337**	**14,967,127**	**41,576,490**
Letters of credit	**3,982,788**	**566,130**	**200,765**	**635,029**	**-**	**5,384,712**
Total	**15,464,817**	**1,950,614**	**3,490,278**	**11,088,366**	**14,967,127**	**46,961,202**

31 December 2016

	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	13,567,567	2,068,757	2,854,051	7,437,463	12,357,172	38,285,010
Letters of credit	3,359,779	492,225	332,929	558,922	-	4,743,855
Total	16,927,346	2,560,982	3,186,980	7,996,385	12,357,172	43,028,865

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

23 Contra accounts and commitments (continued)

(d) Operating lease commitments

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

	31 December 2017 AED'000	31 December 2016 AED'000
Less than 1 year	37,500	37,121
1 to 5 years	47,458	46,077
Over 5 years	13,795	9,983
Total	98,753	93,181

24 Interest income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Loans and advances	3,436,536	3,392,622
Banks	682,467	520,761
Other financial assets	474,613	411,008
Central banks	90,482	141,688
	4,684,098	4,466,079

25 Income from Islamic financing and investment products

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Financing		
Murabaha	204,112	177,935
Ijara	155,240	112,108
Other	26,417	9,466
	385,769	299,509

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

25 Income from Islamic financing and investment products (continued)

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Investment		
Mudaraba	**1,088**	10,518
Wakala	**19,819**	37,528
	20,907	48,046
Total	**406,676**	347,555

26 Interest expense

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Customers' deposits	**885,366**	861,470
Deposits and balances due to banks	**412,665**	397,935
Medium-term loans	**142,419**	86,125
	1,440,450	1,345,530

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'h Supervisory Board.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

28 Net fee and commission income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Fee and commission income		
Commission income	**577,370**	538,202
Insurance commission	**327,951**	320,466
Fees and charges on banking services	**582,066**	688,844
Credit card related fees	**1,266,160**	1,272,004
Other	**234,929**	229,626
Total fee and commission income	**2,988,476**	3,049,142
Fee and commission expenses		
Commission expense	**(19,376)**	(35,074)
Insurance commission	**(381,964)**	(348,852)
Credit card related expenses	**(951,176)**	(898,576)
Other	**(78,361)**	(81,967)
Total fee and commission expenses	**(1,430,877)**	(1,364,469)
Net fee and commission income	**1,557,599**	1,684,673

29 Net investment income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**44,744**	24,029
Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)]	**30,380**	6,310
Interest income from debt securities at FVTPL	**80,514**	204,709
Dividends income from other financial assets measured at FVTPL	**618**	1,081
Net realised gain/(loss) from sale of other financial assets measured at amortised cost	**8,636**	(490)
Dividend income from financial assets measured at FVTOCI [Note 7 (j)]	**22,476**	26,878
	187,368	262,517

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

30 Other income, net

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Fair value adjustments of investment properties (Note 12)	**(773)**	(2,161)
Foreign exchange gains, net	**439,552**	423,478
Insurance and other related income, net [Note 30(a)]	**435,199**	393,352
(Loss)/gain on disposal of property and equipment	**(1,566)**	53,837
Loss from disposal of investment properties	**(300)**	(250)
Fair value adjustment – derivatives	**64**	6,954
Other	**(99,910)**	(16,142)
	772,266	859,068

(a) Insurance and other related income, net

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Net insurance premium revenue	**1,453,899**	1,342,328
Net claims incurred	**(1,326,533)**	(1,249,606)
Other insurance related income, net	**307,833**	300,630
	435,199	393,352

31 General and administrative expenses

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Salaries and employees related expenses	**1,371,069**	1,365,105
Depreciation on property and equipment (Note 13)	**150,600**	155,611
Social contributions	**-**	-
Other	**839,087**	885,985
	2,360,756	2,406,701

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 2017 (continued)

32 Allowances for impairment, net

31 December 2017

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for impaired loans and advances, net [Note 8 (d)]	143,823	512,894	136,259	792,976
Allowance for other assets, net	-	36,280	-	36,280
Allowance for deposits and balances due from banks, net [Note 6 (c)]	-	5,174	-	5,174
Allowance for impaired islamic assets, net [Note 9(d)]	696	56,624	-	57,320
Write-off of impaired loans and advances	671,802	-	-	671,802
Recovery of loans and advances previously written off	(43,218)	(32,652)	-	(75,870)
	773,103	578,320	136,259	1,487,682

31 December 2016

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for impaired loans and advances, net [Note 8 (d)]	187,055	573,358	142,812	903,225
Allowance for other assets, net	-	37,617	-	37,617
Allowance for impaired islamic assets, net [Note 9(d)]	5,429	14,346	-	19,775
Write-off of impaired loans and advances	890,472	-	-	890,472
Recovery of allowance against impaired loans and advances [Note 8 (d)]	-	(3,900)	-	(3,900)
Recovery of loans and advances previousl written off	(44,858)	(68,672)	-	(113,530)
	1,038,098	552,749	142,812	1,733,659

Notes to the consolidated financial statements for the year ended 31 December 2017 (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.

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Profit for the year (AED'000) (Attributed to owners of the Parent)	**2,052,320**	1,926,412
Number of ordinary shares outstanding [Note 21 (a)]	**177,530,823**	177,530,823
Basic and diluted earnings per share (AED)	**11.56**	10.85

34 Proposed dividends

The Board of Directors has proposed 40% cash dividend at their meeting held on 28 January 2018.

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:

	31 December 2017 AED'000	31 December 2016 AED'000
Cash on hand	**1,150,663**	1,049,505
Current accounts and other balances	**6,958,948**	6,774,795
Deposits and balances due from banks maturing within 3 months	**13,046,226**	12,489,137
	21,155,837	20,313,437

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

36 Investment in subsidiaries

(a) At 31 December 2017 and 31 December 2016, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct material 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 FZ LLC	United Arab Emirates	100.00	100.00	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

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

Name of Subsidiary	Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interest	
	Year ended 31 December 2017 AED '000	Year ended 31 December 2016 AED '000	**Year ended 31 December 2017 AED '000**	Year ended 31 December 2016 AED '000
Oman Insurance Company (PSC) Group	**37,863**	25,770	**757,797**	721,884
Individually immaterial subsidiaries with non-controlling interests	**(653)**	1,729	**5,177**	6,125
	37,210	27,499	**762,974**	728,009

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

36 Investment in subsidiaries (continued)

(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.

	31 December 2017 AED'000	31 December 2016 AED'000
Statement of financial position		
Total assets	**7,404,690**	7,194,384
Total liabilities	**5,342,944**	5,235,972
Net equity	**2,061,746**	1,958,412

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Statement of comprehensive income		
Net insurance premium revenue	**1,453,899**	1,342,328
Net claims incurred	**(1,326,533)**	(1,249,606)
Net commission and other (loss)/income	**(10,476)**	15,504
Net investment income	**76,377**	73,290
Net expenses	**(88,783)**	(101,302)
Profit for the year	**104,484**	80,214
Other comprehensive income	**45,435**	9,517
Total comprehensive income	**149,919**	89,731
Statement of cash flows		
Net cash generated from/(used in) operating activities	**39,020**	(49,144)
Net cash generated from/(used in) investing activities	**77,633**	(52,588)
Net cash flows (used in)/generated from financing activities	**(172,992)**	288,056
Net (decrease)/increase in cash and cash equivalents	**(56,339)**	186,324

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 who own 87.99% (31 December 2016: 87.76%) of the issued and paid up capital.

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

	31 December 2017 AED '000	31 December 2016 AED '000
Loans and advances measured at amortised cost	**3,310,595**	2,586,403
Customer's deposits	**1,513,781**	1,216,323
Letters of credit and guarantee	**1,333,097**	1,163,375

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

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Interest income	**137,850**	85,685
Interest expense	**7,650**	7,809
Other income, net	**53,314**	53,779

(e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 130 million (31 December 2016: AED 124 million).

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

38 Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2017			31 December 2016		
	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.	**72,199,206**	**63,381,256**	**31,563,594**	74,224,411	59,783,528	27,866,024
Other Middle East Countries	**21,383,310**	**15,283,490**	**7,048,442**	21,313,748	21,619,112	8,127,424
O.E.C.D.	**11,396,159**	**13,379,797**	**4,114,015**	10,258,253	13,049,885	2,882,022
Other	**20,209,561**	**12,017,273**	**4,235,151**	17,017,124	8,875,366	4,153,395
	125,188,236	**104,061,816**	**46,961,202**	122,813,536	103,327,891	43,028,865

(b) Industry Sector

	31 December 2017			31 December 2016		
	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	**17,156,003**	**6,871,995**	**2,318,647**	16,159,314	5,938,556	532,353
Commercial & Business	**42,246,661**	**55,233,697**	**33,558,324**	38,385,617	55,813,577	31,080,882
Personal	**17,201,011**	**16,723,583**	**900,117**	17,464,353	15,884,596	659,534
Financial Institutions	**45,487,290**	**24,682,712**	**10,184,114**	49,325,148	24,989,793	10,753,643
Other	**3,097,271**	**549,829**	**-**	1,479,104	701,369	2,453
	125,188,236	**104,061,816**	**46,961,202**	122,813,536	103,327,891	43,028,865

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 *Operating Segments* 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 2017 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2017							
	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	877,143	1,013,250	65,111	695,033	345,152	47,744	454,990	3,498,423
Other income, net	483,763	517,012	551,318	546,279	133,957	389,936	(105,032)	2,517,233
Total operating income	1,360,906	1,530,262	616,429	1,241,312	479,109	437,680	349,958	6,015,656
General and administrative expenses								(2,360,756)
Allowances for impairment								(1,487,682)
Profit before taxes								2,167,218
Overseas income tax expense								(77,688)
Profit for the year								2,089,530
Attributed to:								
Owners of the Parent								2,052,320
Non-controlling interests								37,210
								2,089,530
Segment Assets	32,797,764	13,487,094	17,584,540	31,141,254	10,342,771	4,641,231	15,193,582	125,188,236
Segment Liabilities	32,527,369	25,491,243	9,253,428	19,433,187	7,412,273	2,437,497	7,506,819	104,061,816

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2016							
	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	846,995	1,094,443	39,058	696,323	305,836	59,016	320,696	3,362,367
Other operating income, net	472,450	589,504	524,848	767,173	15,641	376,003	60,639	2,806,258
Total operating income	1,319,445	1,683,947	563,906	1,463,496	321,477	435,019	381,335	6,168,625
General and administrative expenses								(2,406,701)
Allowances for impairment								(1,733,659)
Profit before taxes								2,028,265
Overseas income tax expense								(74,354)
Profit for the year								1,953,911
Attributed to:								
Owners of the Parent								1,926,412
Non-controlling interests								27,499
								1,953,911
Segment Assets	30,910,557	13,579,281	17,004,042	32,505,293	8,797,296	4,702,638	15,314,429	122,813,536
Segment Liabilities	29,624,000	24,153,152	7,467,659	23,155,000	8,450,303	2,577,053	7,900,724	103,327,891

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 from external customers *		**Non-current assets ****	
	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000
U.A.E.	**4,931,410**	5,018,642	**1,823,162**	1,654,537
Other Middle East countries	**793,124**	904,865	**28,033**	26,987
O.E.C.D.	**234,515**	192,806	**7,862**	3,625
Other countries	**56,607**	52,312	**16,024**	16,718
	6,015,656	6,168,625	**1,875,081**	1,701,867

* 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 the year ended 31 December 2017.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	16,899,076	16,899,076
Deposits and balances due from banks	-	-	20,135,427	20,135,427
Other financial assets measured at fair value	954,204	626,341	-	1,580,545
Loans and advances measured at amortised cost	-	-	53,394,165	53,394,165
Islamic financing and investment products measured at amortised cost	-	-	9,339,467	9,339,467
Other financial assets measured at amortised cost	-	-	12,583,404	12,583,404
Other assets	492,580	-	8,682,866	9,175,446
Total	1,446,784	626,341	121,034,405	123,107,530

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	9,313,430	9,313,430
Repurchase agreements with banks	-	-	557,183	557,183
Customers' deposits	-	-	69,380,208	69,380,208
Islamic customers' deposits	-	-	6,680,874	6,680,874
Other liabilities	440,829	-	8,665,669	9,106,498
Medium-term loans	-	-	6,226,032	6,226,032
Total	440,829	-	100,823,396	101,264,225

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 2016:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	18,629,582	18,629,582
Deposits and balances due from banks	-	-	18,667,750	18,667,750
Other financial assets measured at fair value	1,650,520	768,679	-	2,419,199
Loans and advances measured at amortised cost	-	-	53,428,461	53,428,461
Islamic financing and investment products measured at amortised cost	-	-	7,565,063	7,565,063
Other financial assets measured at amortised cost	-	-	10,849,298	10,849,298
Other assets	863,918	-	8,420,242	9,284,160
Total	2,514,438	768,679	117,560,396	120,843,513

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	8,932,076	8,932,076
Repurchase agreements with banks	-	-	605,600	605,600
Customers' deposits	-	-	69,947,124	69,947,124
Islamic customers' deposits	-	-	7,093,383	7,093,383
Other liabilities	872,229	-	7,997,765	8,869,994
Medium-term loans	-	-	4,971,860	4,971,860
Total	872,229	-	99,547,808	100,420,037

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 2017 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2017

				Notional amount by term to maturity				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	186,209	141,491	47,528,180	37,649,639	4,662,335	4,225,944	990,262	-
Foreign exchange options (bought)	-	1,260	370,624	208,329	108,759	53,536	-	-
Foreign exchange options (sold)	1,264	-	338,348	176,052	108,761	53,535	-	-
Interest rate swaps	296,025	286,118	24,816,656	967,349	1,812,882	622,440	13,147,117	8,266,868
Credit default swaps	-	1,410	36,730	-	-	-	36,730	-
Futures contracts purchased (Customer)	64	-	207,696	109,226	98,470	-	-	-
Futures contracts sold (Customer)	-	7,671	370,666	368,538	2,128	-	-	-
Futures contracts sold (Bank)	1,108	64	970,018	278,311	120,983	480,827	89,897	-
Futures contracts purchased (Bank)	7,910	-	404,769	402,641	2,128	-	-	-
Total	**492,580**	**438,014**	**75,043,687**	**40,160,085**	**6,916,446**	**5,436,282**	**14,264,006**	**8,266,868**
Derivatives held as fair value hedge:								
Cross-currency swap	-	2,815	185,280	-	-	-	185,280	-
Total	**492,580**	**440,829**	**75,228,967**	**40,160,085**	**6,916,446**	**5,436,282**	**14,449,286**	**8,266,868**

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2016

				Notional amount by term to maturity				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	379,705	452,175	46,706,024	32,647,759	5,809,550	6,970,964	1,277,751	-
Foreign exchange options (bought)	-	35,128	2,180,458	776,227	240,737	1,163,494	-	-
Foreign exchange options (sold)	37,591	-	2,082,554	678,323	240,737	1,163,494	-	-
Interest rate swaps	389,820	383,051	25,663,298	528,393	487,000	1,036,522	16,523,429	7,087,954
Credit default swaps	-	225	20,000	-	20,000	-	-	-
Equity options	-	-	-	-	-	-	-	-
Futures contracts purchased (Customer)	-	990	119,422	111,069	-	8,353	-	-
Futures contracts sold (Customer)	660	-	122,862	122,862	-	-	-	-
Futures contracts sold (Bank)	990	-	119,422	111,069	-	8,353	-	-
Futures contracts purchased (Bank)	-	660	122,862	122,862	-	-	-	-
	808,766	872,229	77,136,902	35,098,564	6,798,024	10,351,180	17,801,180	7,087,954
Derivatives held as cash flow hedges:								
Cross-currency swaps	55,152	-	270,735	270,735	-	-	-	-
Total	863,918	872,229	77,407,637	35,369,299	6,798,024	10,351,180	17,801,180	7,087,954

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 and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

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 excluding non-controlling interest in insurance company, 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.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

(a) The Group's regulatory capital positions as at 31 December 2017 and 31 December 2016 were as follows:

		31 December 2017 AED'000	31 December 2016 AED'000
Tier 1 capital			
Issued and paid up capital		**1,775,308**	1,775,308
Statutory and legal reserve		**901,621**	899,351
General reserve		**312,000**	312,000
Cumulative translation adjustment		**(59,163)**	(298,562)
Goodwill		**(14,414)**	(15,365)
Retained earnings		**17,618,669**	16,310,198
Non-controlling interest		**5,070**	6,123
Deduction from Tier 1 Capital		**(24,763)**	(24,288)
Total		**20,514,328**	18,964,765
Tier 2 capital			
Allowance for collective impairment		**1,322,445**	1,325,100
Investments revaluation reserve		**(184,989)**	(248,283)
Cash flow hedging reserve		**-**	7,624
Qualifying subordinated liabilities*		**-**	17,012
Deduction from Tier 2 Capital		**(24,763)**	(24,288)
Total		**1,112,693**	1,077,165
Total capital base	**(A)**	**21,627,021**	20,041,930

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

42 Capital management (continued)

Regulatory capital (continued)

		31 December 2017 AED'000	31 December 2016 AED'000
Risk-weighted assets			
Credit risk		**105,795,571**	106,007,825
Market risk		**1,744,305**	2,498,202
Operational risk		**10,428,732**	10,367,924
Total risk-weighted assets	**(B)**	**117,968,608**	118,873,951
Capital adequacy ratio	**[(A)/(B) x 100]**	**18.33%**	16.86%

* Qualifying subordinated liabilities represents the following:

	31 December 2017 AED'000	31 December 2016 AED'000
Medium-term notes [Note 20]	-	1,020,726
Less: Cumulative amortisation	-	(1,003,714)
	-	17,012

As per Central bank regulation for Basel III , the capital requirement in the year 2017 is 11.75% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.

The bank must comply with the following minimum requirement :

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

Additionally capital conservation buffer is to be maintained at 1.25% in year 2017 , this will increase to 2.5% by year 2019.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

42 Capital management (continued)

Regulatory capital (continued)

(b) The Group's regulatory capital positions as at 31 December 2017 under Basel III is as follows:

		31 December 2017 AED'000
Capital Base:		
Tier 1 capital*		19,800,859
Tier 2 capital		1,191,742
Total capital base	**(A)**	**20,992,601**
Risk-weighted assets		
Credit risk		110,138,527
Market risk		1,744,305
Operational risk		10,428,732
Total risk-weighted assets	**(B)**	**122,311,564**
Capital adequacy ratio	**[(A)/(B) x 100]**	**17.16%**

* Proposed Dividend is adjusted while calculating Tier 1 capital.

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 return on capital 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. These committees work under terms of reference set by the BoD; approve all risk management policies for the Bank.

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.

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.

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).

Risk Analytics and Modelling:

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 of 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 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 required risk capital) and recommending appropriate actions, as warranted.

As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing on 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.

43 Risk management (continued)

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 to both corporate and individuals 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 an 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 and non-performing borrowers are assigned ratings of non-accrual under restructuring (NAUR), substandard, doubtful and loss.

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

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 to be 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 and approved by the Group's Chief Executive Officer (the "CEO").

The Group has established limits for managing transferability and convertibility risks, together defined as cross-border risk 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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Credit risk management (continued)

Wholesale credit risk management (continued)

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 perform a 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 Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models for high volume products such as Credit cards and Personal loans and 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.

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 as explained 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loan classification(continued)

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 are no immediate prospects of a restructuring. Provisions and loans classification are taken in line with the Central Bank of U.A.E. guidelines and IFRS.

When interest or principal of a credit is overdue for ninety days or more, interest is suspended and is not credited to consolidated statement of profit or loss. 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 as per 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.

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 the principal balance is made when it is past due by more than 90 days and less than 120 days a provision of 50% of the 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.

43 Risk management (continued)

Credit risk management (continued)

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 2017 (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	
	31 December 2017 AED'000	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000
Impaired								
Non-Accrual Under Restructuring	-	-	**74,429**	88,287	**124,618**	8,047	-	-
Substandard	-	-	**442,600**	351,858	**88,866**	9,347	-	-
Doubtful	-	-	**316,684**	868,222	**43,330**	31,382	-	-
Loss	-	-	**1,111,227**	895,269	**24,608**	22,278	-	111,998
Gross amount	-	-	**1,944,940**	2,203,636	**281,422**	71,054	-	111,998
Interest/profit suspended	-	-	**(285,112)**	(310,336)	**(10,341)**	(4,574)	-	(2,129)
Specific allowance for impairment	-	-	**(983,621)**	(1,045,147)	**(82,086)**	(25,971)	-	(109,869)
	-	-	**676,207**	848,153	**188,995**	40,509	-	-
Past due but not impaired								
Past due by less than 90 days*	-	-	**495,326**	121,589	**17,045**	-	-	-
Past due beyond 90 days**	-	-	**495,109**	29,938	-	-	-	-
Past due retail loans beyond 30 days	-	-	**339,631**	384,100	**36,157**	41,480	-	-
	-	-	**1,330,066**	535,627	**53,202**	41,480	-	-
Neither past due nor impaired								
Gross amount	**20,135,427**	18,667,750	**53,188,364**	53,909,731	**9,121,970**	7,507,774	**12,583,404**	10,849,298
Collective allowance for impairment	-	-	**(1,800,472)**	(1,865,505)	**(24,700)**	(24,700)	-	-
	20,135,427	18,667,750	**51,387,892**	52,044,681	**9,097,270**	7,483,074	**12,583,404**	10,849,298
Carrying amount	**20,135,427**	18,667,750	**53,394,165**	53,428,461	**9,339,467**	7,565,063	**12,583,404**	10,849,298

* During the year ended 31 December 2017, this balance includes exposure of AED 269 million where interest is being serviced and the loan is in the final stage of restructuring.
** During the year ended 31 December 2017, this balance includes an exposure of AED 481 million where interest is being serviced and active restructuring discussions are in place.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Credit risk management (continued)

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 2017 and 2016 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**	
Grades	**31 December 2017 AED'000**	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000
Grade 1 – Low risk	**3,127,742**	3,863,219	**460,163**	701,448
Grade 2 – Satisfactory risk	**40,421,167**	36,675,960	**7,545,318**	5,217,573
Grade 3 – Fair Risk	**3,758,253**	6,755,585	**553,817**	366,295
Grade 4 – Watch List	**5,881,202**	6,614,967	**562,672**	1,222,457
	53,188,364	53,909,731	**9,121,970**	7,507,773

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**	
	31 December 2017 AED'000	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000
Against individually impaired loans and advances:				
Property	**223,556**	197,342	-	-
Equities	-	238,404	-	-
Cash	**1,520**	1,073	-	-
Others	**70,000**	98,805	-	-
Against loans and advances not impaired:				
Property	**16,284,824**	10,323,793	-	-
Equities	**1,912,775**	1,121,515	-	-
Cash	**7,363,648**	916,205	**397,964**	109,069
Others	**7,606,705**	4,870,659	-	-
Total	**33,463,028**	17,767,796	**397,964**	109,069

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	Total AED'000
31 December 2017				
Impaired loans and advances	**1,112,013**	**832,747**	**180**	**1,944,940**
Impairment allowance for credit losses inclusive of interest in suspense	**(722,340)**	**(546,167)**	**(226)**	**(1,268,733)**
	389,673	**286,580**	**(46)**	**676,207**
31 December 2016				
Impaired loans and advances	1,294,707	908,762	167	2,203,636
Impairment allowance for credit losses inclusive of interest in suspense	(777,925)	(577,354)	(203)	(1,355,482)
	516,782	331,408	(36)	848,154

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	Others AED'000	Total AED'000
31 December 2017				
Impaired Islamic financing and investment products	**156,805**	-	**124,617**	**281,422**
Impairment allowance for credit losses inclusive of profit in suspense	**(89,937)**	-	**(2,490)**	**(92,427)**
	66,868	-	**122,127**	**188,995**
31 December 2016				
Impaired Islamic financing and investment products	71,054	-	-	71,054
Impairment allowance for credit losses inclusive of profit in suspense	(30,505)	-	-	(30,505)
	40,549	-	-	40,549

43 Risk management (continued)

Operational risk management

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

Governance

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

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

Operational risk management follows three lines of defence model;

- Business units form the first line of defence. They own the risk and have direct responsibility managing operational risk in their respective areas.
- Group Operational risk team is the second line of defence which provides policy, tools and infrastructure to assist business units in managing their risks; and
- Internal Audit is the third line of defence who provides independent assurance on the effectiveness of the risk management process.

The Board has oversight responsibilities for operational risk management. These responsibilities are exercised through the Risk management committee, which is the senior Management forum responsible for the oversight of Operational Risk.

Regulatory capital requirement for operational risk capital is calculated annually. Mashreq has adopted the Standardized approach in determining its operational risk capital requirements.

Risk identification, monitoring and reporting

Mashreq's Operational risk framework consist of tools that assist in managing and measuring operational risk including:

Risk and control self-assessment (RCSA)

RCSA is the process of identifying, recording and assessing potential risks and related controls. It provides a framework and tools for management to:

a) Identify and prioritize their business objectives
b) Assess and manage key risks
c) Testing the effectiveness of controls, and
d) Developing action plans

43 Risk management (continued)

Incident management

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

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.

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 and open FX positions. 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.

In year 2017, VaR was calculated regularly and as of 31 December 2017 the 99% one day VaR was USD 14.61 million (31 December 2016: USD 1.145 million) for the bank wide open market positions (including FX open positions). The Bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

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

43 **Risk management** (continued)

Interest rate risk management

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

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

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2017 would have been a decrease in profit by -4.29% (in case of decrease of interest rates) and would have been an increase in profit by +4.41% (in case of increase of interest rates) [31 December 2016: -5.37% and +5.51%] respectively.

During the year ended 31 December 2017, the effective interest rate on due from banks and certificates of deposits with central banks was 1.67% (31 December 2016: 1.56%), on loans and advances measured at amortised cost 5.50% (31 December 2016: 5.52%), on customers' deposits 1.12% (31 December 2016: 1.10%) and on due to banks (including repurchase agreements) 1.27% (31 December 2016: 0.83%).

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 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2017							
Assets							
Cash and balances with central banks	5,979,811	-	850,000	-	-	10,069,265	16,899,076
Deposits and balances due from banks	9,786,145	4,851,010	1,043,990	496,482	-	3,957,800	20,135,427
Other financial assets measured at fair value	250,076	174,063	13,588	-	-	1,142,818	1,580,545
Loans and advances measured at amortised cost	40,558,579	3,255,652	1,450,636	3,455,635	4,229,201	444,462	53,394,165
Islamic financing and investment products measured at amortised cost	6,925,275	459,234	165,255	688,016	902,471	199,216	9,339,467
Other financial assets measured at amortised Cost	5,972,970	4,655,430	348,691	761,945	844,368	-	12,583,404
Other assets	-	-	-	-	-	9,381,071	9,381,071
Goodwill	-	-	-	-	-	14,414	14,414
Investment properties	-	-	-	-	-	517,691	517,691
Property and equipment	-	-	-	-	-	1,342,976	1,342,976
Total assets	69,472,856	13,395,389	3,872,160	5,402,078	5,976,040	27,069,713	125,188,236

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2017							
Liabilities and equity							
Deposits and balances due to banks	6,586,279	771,201	422,950	-	-	1,533,000	9,313,430
Repurchase agreements with banks	557,183	-	-	-	-	-	557,183
Customers' deposits	19,070,225	7,010,104	4,643,802	2,627,821	553,378	35,474,878	69,380,208
Islamic customers' deposits	1,643,086	348,133	1,376,085	262,868	16,700	3,034,002	6,680,874
Insurance and life assurance funds	-	-	-	-	-	1,582,695	1,582,695
Other liabilities	-	-	-	-	-	10,321,394	10,321,394
Medium-term loans	2,736,004	1,473,315	618,267	1,208,066	-	190,380	6,226,032
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,363,446	20,363,446
Non-controlling interest	-	-	-	-	-	762,974	762,974
Total liabilities and equity	30,592,777	9,602,753	7,061,104	4,098,755	570,078	73,262,769	125,188,236
On Balance Sheet gap	38,880,079	3,792,636	(3,188,944)	1,303,323	5,405,962	(46,193,056)	-
Off Balance Sheet gap	(35)	-	-	-	35	-	-
Cumulative interest rate sensitivity gap	38,880,044	42,672,680	39,483,736	40,787,059	46,193,056	-	-

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2016							
Assets							
Cash and balances with central banks	6,918,133	1,200,000	1,000,000	-	-	9,511,449	18,629,582
Deposits and balances due from banks	10,595,789	4,031,887	783,781	241,652	-	3,014,641	18,667,750
Other financial assets measured at fair value	394,776	373,696	344,910	-	-	1,305,817	2,419,199
Loans and advances measured at amortised cost	40,802,830	4,053,755	1,622,752	4,432,714	2,016,447	499,963	53,428,461
Islamic financing and investment products measured at amortised cost	5,766,871	110,857	81,492	679,997	875,431	50,415	7,565,063
Other financial assets measured at amortised cost	5,723,391	3,458,384	366,415	919,317	381,632	159	10,849,298
Other assets	-	-	-	-	-	9,552,316	9,552,316
Goodwill	-	-	-	-	-	15,365	15,365
Investment properties	-	-	-	-	-	520,864	520,864
Property and equipment	-	-	-	-	-	1,165,638	1,165,638
Total assets	70,201,790	13,228,579	4,199,350	6,273,680	3,273,510	25,636,627	122,813,536

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2016	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	5,337,734	389,844	303,034	-	-	2,901,464	8,932,076
Repurchase agreements with banks	605,600	-	-	-	-	-	605,600
Customers' deposits	18,487,369	8,075,316	5,494,292	2,484,100	724,337	34,681,710	69,947,124
Islamic customers' deposits	2,914,884	392,031	675,219	520,868	21,440	2,568,941	7,093,383
Insurance and life assurance funds	-	-	-	-	-	1,510,758	1,510,758
Other liabilities	-	-	-	-	-	10,267,090	10,267,090
Medium-term loans	1,396,456	171,612	3,032,385	259,995	-	111,412	4,971,860
Equity attributable to shareholders of the Parent	-	-	-	-	-	18,757,636	18,757,636
Non-controlling interest	-	-	-	-	-	728,009	728,009
Total liabilities and equity	28,742,043	9,028,803	9,504,930	3,264,963	745,777	71,527,020	122,813,536
On Balance Sheet gap	41,459,747	4,199,776	(5,305,580)	3,008,717	2,527,733	(45,890,393)	-
Off Balance Sheet gap	(231,044)	225,034	(6,717)	(1,240)	13,967	-	-
Cumulative interest rate sensitivity gap	41,228,703	45,653,513	40,341,216	43,348,693	45,890,393	-	-

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Currency risk management

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

	31 December 2017			31 December 2016		
	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	**9,862,269**	**(5,852,816)**	**4,009,453**	9,717,274	(7,849,642)	1,867,632
Qatari Riyals	**1,999,936**	**110,505**	**2,110,441**	1,387,794	769,123	2,156,917
Pound Sterling	**(692,701)**	**723,001**	**30,300**	(702,160)	706,186	4,026
Euro	**(2,470,578)**	**1,773,735**	**(696,843)**	(3,122,223)	3,323,364	201,141
Bahrain Dinar	**72,490**	**(10,609)**	**61,881**	153,179	(30,119)	123,060
Saudi Riyal	**(1,464,959)**	**1,460,716**	**(4,243)**	(901,433)	960,864	59,431
Japanese Yen	**(694,888)**	**704,456**	**9,568**	(368,860)	420,037	51,177
Swiss Francs	**(207,102)**	**207,511**	**409**	(124,926)	128,107	3,181
Kuwaiti Dinar	**209,277**	**(161,225)**	**48,052**	67,936	(578)	67,358
Chinese Yuan	**(259,001)**	**260,289**	**1,288**	(230,315)	230,300	(15)
Other	**486,075**	**(7,603)**	**478,472**	(32,888)	81,951	49,063
Total	**6,840,818**	**(792,040)**	**6,048,778**	5,843,378	(1,260,407)	4,582,971

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

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

Liquidity risk management

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

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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

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. ALCO has a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCO meets on a monthly basis or more often if required to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCO determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions at all locations and for outlining these clearly in the bank's liquidity policies.

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

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

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2017 has an outstanding balance of AED 6.23 billion (31 December 2016: AED 3.14 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, which was repaid in July 2017.

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

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

Inter-bank borrowing lines and repurchase facilities with commercial counterparts 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 2017 (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 2017 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	16,049,076	-	850,000	-	-	16,899,076
Deposits and balances due from banks	13,046,225	4,584,394	1,755,111	749,697	-	20,135,427
Other financial assets measured at fair value	933,436	104,373	1,204	107,836	433,696	1,580,545
Loans and advances measured at amortised Cost	14,701,615	4,258,583	4,929,216	14,574,410	14,930,341	53,394,165
Islamic financing and investment products measured at amortised cost	4,368,997	495,211	301,278	2,260,772	1,913,209	9,339,467
Other financial assets measured at amortised cost	1,865,093	742,134	593,922	4,905,471	4,476,784	12,583,404
Other assets	4,295,794	2,922,741	2,031,631	111,735	19,170	9,381,071
Goodwill	-	-	-	-	14,414	14,414
Investment properties	-	-	-	-	517,691	517,691
Property and equipment	-	-	-	-	1,342,976	1,342,976
Total assets	55,260,236	13,107,436	10,462,362	22,709,921	23,648,281	125,188,236

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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	8,119,279	771,201	422,950	-	-	9,313,430
Repurchase agreements with banks	557,183	-	-	-	-	557,183
Customers' deposits	54,490,765	7,004,193	4,652,383	2,679,489	553,378	69,380,208
Islamic customers' deposits	4,676,969	348,132	1,376,205	262,868	16,700	6,680,874
Insurance and life assurance funds	-	-	1,078,357	504,338	-	1,582,695
Other liabilities	5,209,693	2,357,861	2,261,122	249,886	242,832	10,321,394
Medium-term loans	2,736,004	1,473,315	808,647	1,208,066	-	6,226,032
Equity attributable to shareholders of the Parent	-	-	-	-	20,363,446	20,363,446
Non-controlling interest	-	-	-	-	762,974	762,974
Total liabilities and equity	75,789,893	11,954,702	10,599,664	4,904,647	21,939,330	125,188,236

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2016 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	16,425,159	1,204,423	1,000,000	-	-	18,629,582
Deposits and balances due from banks	12,489,137	4,436,173	1,311,151	431,289	-	18,667,750
Other financial assets measured at fair value	1,102,170	137,778	344,910	222,310	612,031	2,419,199
Loans and advances measured at amortised cost	20,975,850	2,764,492	4,754,120	14,798,643	10,135,356	53,428,461
Islamic financing and investment products measured at amortised cost	4,807,405	157,060	100,765	1,309,730	1,190,103	7,565,063
Other financial assets measured at amortised cost	2,014,790	652,523	549,978	4,287,734	3,344,273	10,849,298
Other assets	3,125,001	2,861,642	2,800,294	181,063	584,316	9,552,316
Goodwill	-	-	-	-	15,365	15,365
Investment properties	-	-	-	-	520,864	520,864
Property and equipment	-	-	-	-	1,165,638	1,165,638
Total assets	60,939,512	12,214,091	10,861,218	21,230,769	17,567,946	122,813,536

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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	8,239,198	389,844	303,034	-	-	8,932,076
Repurchase agreements with banks	605,600	-	-	-	-	605,600
Customers' deposits	53,166,224	8,059,135	5,483,935	2,513,493	724,337	69,947,124
Islamic customers' deposits	5,483,825	392,031	675,219	520,868	21,440	7,093,383
Insurance and life assurance funds	-	-	1,020,068	490,690	-	1,510,758
Other liabilities	3,945,364	2,408,180	3,024,911	595,527	293,108	10,267,090
Medium-term loans	1,396,456	171,612	3,143,797	259,995	-	4,971,860
Equity attributable to shareholders of the Parent	-	-	-	-	18,757,636	18,757,636
Non-controlling interest	-	-	-	-	728,009	728,009
Total liabilities and equity	72,836,667	11,420,802	13,650,964	4,380,573	20,524,530	122,813,536

43 Risk management (continued)

Fair value measurements

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

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

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

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

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2016.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Financial assets	**Fair value as at**					
	31 December 2017 AED'000	31 December 2016 AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Financial assets measured at FVTPL						
Quoted debt investments	**119,098**	369,195	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**3,548**	-	Level 1	Quoted bid prices in an active market	None	Not Applicable
Mutual and other funds	**197,358**	262,351	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**258,793**	680,364	Level 2	Based on the recent similar transaction in market	Similar market transaction	Higher the price of the interest rate lower the value of bond.
Unquoted debt investments	**59,836**	63,837	Level 3	Based on discounted cash flow model	Interest rate	Higher the interest rate lower the value of bond.
Mutual and other funds	**315,349**	274,558	Level 3	Net assets values of the funds	Net assets value	Higher the net asset value, higher the fair value.
Unquoted equity investments	**222**	215	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	954,204	1,650,520				

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Financial assets	**Fair value as at**					
	31 December 2017 AED'000	31 December 2016 AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Financial assets measured at FVTOCI						
Quoted equity investments	**355,543**	384,214	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**259,886**	348,294	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Mutual and Other funds	**10,912**	36,171	Level 1	Quoted bid prices in an active market	None	Not Applicable
	626,341	768,679				
	1,580,545	2,419,199				

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

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

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

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

	31 December 2017 AED'000	31 December 2016 AED'000
At 1 January	**338,610**	395,834
Purchases	**129,617**	97,250
Disposals/matured	**(134,038)**	(158,298)
Change in fair value	**41,218**	3,824
At 31 December	**375,407**	338,610

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

	31 December 2017 AED'000	31 December 2016 AED'000
At 1 January	**348,294**	216,650
Purchases	**-**	106,165
Disposals/matured	**(153,675)**	(16,643)
Change in fair value	**65,267**	42,122
At 31 December	**259,886**	348,294

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'.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

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

	Carrying amount AED'000	Fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2017					
Financial assets:					
Other financial assets measured at amortised cost	**12,583,404**	**9,126,707**	**1,432,660**	**2,020,566**	**12,579,933**
31 December 2016					
Financial assets:					
Other financial assets measured at amortised cost	10,849,298	7,070,188	1,237,774	2,450,533	10,758,495

	Carrying Amount AED'000	Fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2017					
Financial liabilities					
Medium-term notes	**6,226,032**	**4,904,034**	**-**	**1,314,700**	**6,218,734**
31 December 2016					
Financial liabilities					
Medium-term notes	3,135,360	1,786,183	-	1,340,883	3,127,066

43. Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2017 and 31 December 2016:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2017				
Other financial assets measured at fair value	**95,420**	**(95,420)**	**62,634**	**(62,634)**
31 December 2016				
Other financial assets measured at fair value	165,052	(165,052)	76,868	(76,868)

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

44 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.

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 113 million as at 31 December 2017 (31 December 2016: AED 98 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 2017 were approved by the Board of Directors and authorised for issue on 28 January 2018.