Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2018

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Mashreqbank PSC Group

Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2018.

Incorporation and registered offices

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

Principal activities

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

Financial position and results

The financial position and results of the Group for the year ended 31 December 2018 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed 40% Cash Dividend at their meeting held on 21 January 2019

Directors

The following were the Directors of the Bank for the year ended 31 December 2018

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

Auditors

The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

Abdulla Bin Ahmad Al Ghurair
Chairman
21 January 2019

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

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

Our audit approach

Key Audit Matters	• Measurement of Expected Credit Losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses	
IFRS 9 'Financial instruments' became effective from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group has previously adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments. The Group adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. The adoption of the ECL model under IFRS 9 has resulted in an increase in the impairment provision by AED 1.60 billion which has been recognized as an adjustment in equity at 1 January 2018. On the initial application of IFRS 9 management has evaluated and disclosed the information required by IFRS 7 and IFRS 9. The Group applies ECL on all its financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2018: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal specialists to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collaterals.

Key audit matters (continued)

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

Other information

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

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

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the books of account of the Group;
- note 7 to the consolidated financial statements discloses the shares purchased by the Group during the financial year ended 31 December 2018;
- note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted; and

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

Report on other legal and regulatory requirements (continued)

- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, it's Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2018.

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.

PricewaterhouseCoopers
21 January 2019

Mohamed Elborno
Registered Auditor Number 946
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

	Notes	2018 AED'000	2018 USD'000 Equivalent	2017 AED'000	2017 USD'000 Equivalent
		As at 31 December			
ASSETS					
Cash and balances with central banks	5	**20,147,826**	**5,485,387**	16,899,076	4,600,892
Deposits and balances due from banks	6	**23,009,168**	**6,264,407**	20,135,427	5,482,011
Other financial assets measured at fair value	7	**1,737,759**	**473,117**	1,580,545	430,314
Other financial assets measured at amortised cost	7	**11,681,234**	**3,180,298**	12,583,404	3,425,920
Loans and advances measured at amortised cost	8	**56,353,340**	**15,342,592**	53,394,165	14,536,936
Islamic financing and investment products measured at amortised cost	9	**12,916,255**	**3,516,541**	9,339,467	2,542,735
Other assets	10	**2,332,423**	**635,018**	3,015,667	821,037
Acceptances		**9,782,129**	**2,663,253**	6,379,818	1,736,950
Investment properties	12	**489,885**	**133,375**	517,691	140,945
Property and equipment	13	**1,481,588**	**403,373**	1,342,976	365,635
Total assets		**139,931,607**	**38,097,361**	125,188,236	34,083,375
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**9,059,963**	**2,466,638**	9,313,430	2,535,647
Repurchase agreements with banks	15	**2,116,677**	**576,280**	557,183	151,697
Customers' deposits	16	**72,521,856**	**19,744,584**	69,380,208	18,889,248
Islamic customers' deposits	17	**10,696,707**	**2,912,254**	6,680,874	1,818,915
Other liabilities	18	**5,266,894**	**1,433,949**	3,941,576	1,073,122
Acceptances		**9,782,129**	**2,663,253**	6,379,818	1,736,950
Medium-term loans	19	**8,185,390**	**2,228,530**	6,226,032	1,695,081
Insurance and life assurance funds	20	**1,536,302**	**418,269**	1,582,695	430,900
Total liabilities		**119,165,918**	**32,443,757**	104,061,816	28,331,560
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)	**903,877**	**246,087**	901,621	245,473
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(81,380)**	**(22,156)**	(59,163)	(16,108)
Investments revaluation reserve	21(e)	**(242,733)**	**(66,086)**	(184,989)	(50,365)
Cash flow hedge reserve	21(f)	**(4,124)**	**(1,123)**	-	-
Retained earnings		**17,481,156**	**4,759,367**	17,618,669	4,796,806
Equity attributable to owners of the Parent		**20,144,104**	**5,484,373**	20,363,446	5,544,090
Non-controlling interests	22	**621,585**	**169,231**	762,974	207,725
Total equity		**20,765,689**	**5,653,604**	21,126,420	5,751,815
Total liabilities and equity		**139,931,607**	**38,097,361**	125,188,236	34,083,375

Abdulla Bin Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2018		2017	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	**5,427,063**	**1,477,556**	4,764,612	1,297,199
Income from Islamic financing and investment products	25	**570,568**	**155,341**	406,676	110,720
Total interest income and income from Islamic financing and investment products		**5,997,631**	**1,632,897**	5,171,288	1,407,919
Interest expense	26	**(2,096,786)**	**(570,865)**	(1,440,450)	(392,173)
Distribution to depositors – Islamic products	27	**(257,783)**	**(70,183)**	(151,901)	(41,356)
Net interest income and income from Islamic products net of distribution to depositors		**3,643,062**	**991,849**	3,578,937	974,390
Fee and commission income	28	**2,857,563**	**777,992**	2,988,476	813,634
Fee and commission expenses	28	**(1,444,083)**	**(393,162)**	(1,430,877)	(389,566)
Net fee and commission income		**1,413,480**	**384,830**	1,557,599	424,068
Net investment income	29	**26,528**	**7,222**	106,854	29,092
Other income, net	30	**855,218**	**232,839**	772,266	210,255
Operating income		**5,938,288**	**1,616,740**	6,015,656	1,637,805
General and administrative expenses	32	**(2,618,210)**	**(712,826)**	(2,360,756)	(642,732)
Allowances for impairment, net	31	**(1,230,255)**	**(334,945)**	(1,487,682)	(405,032)
Profit before tax		**2,089,823**	**568,969**	2,167,218	590,041
Tax expense		**(24,605)**	**(6,699)**	(77,688)	(21,152)
Profit for the year		**2,065,218**	**562,270**	2,089,530	568,889
Attributable to:					
Owners of the Parent		**2,060,200**	**560,904**	2,052,320	558,759
Non-controlling interests		**5,018**	**1,366**	37,210	10,130
		2,065,218	**562,270**	2,089,530	568,889
Earnings per share	33	**AED 11.60**	**USD 3.16**	AED 11.56	USD 3.15

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

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2018		2017	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	**2,065,218**	**562,270**	2,089,530	568,889
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 (equity instruments) [Note 7(k)]	**(66,530)**	**(18,113)**	47,133	12,832
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	**(22,829)**	**(6,215)**	240,636	65,515
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments) [Note 7(k)]	**(6,093)**	**(1,659)**	-	-
Loss on hedging instruments designated as hedges of net investment in foreign operations	**(5,073)**	**(1,381)**	(1,237)	(337)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	**(4,124)**	**(1,123)**	(7,624)	(2,076)
Total other comprehensive (loss)/income for the year	**(104,649)**	**(28,491)**	278,908	75,934
Total comprehensive income for the year	**1,960,569**	**533,779**	2,368,438	644,823
Attributable to:				
Owners of the Parent	**1,963,686**	**534,627**	2,315,933	630,529
Non-controlling interests	**(3,117)**	**(848)**	52,505	14,294
	1,960,569	**533,779**	2,368,438	644,823

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

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow 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 2017	**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 investments 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**
Changes on initial application of IFRS 9 [Note 3.3(a)]	**-**	**-**	**-**	**-**	**-**	**-**	**(1,472,905)**	**(1,472,905)**	**(126,080)**	**(1,598,985)**
Restated balances as at 1 January 2018	**1,775,308**	**901,621**	**312,000**	**(59,163)**	**(184,989)**	**-**	**16,145,764**	**18,890,541**	**636,894**	**19,527,435**
Profit for the year ended 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**2,060,200**	**2,060,200**	**5,018**	**2,065,218**
Other comprehensive loss for the year	**-**	**-**	**-**	**(22,217)**	**(70,173)**	**(4,124)**	**-**	**(96,514)**	**(8,135)**	**(104,649)**
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**(22,217)**	**(70,173)**	**(4,124)**	**2,060,200**	**1,963,686**	**(3,117)**	**1,960,569**
Additional contribution to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,463**	**4,463**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**12,429**	**-**	**(12,429)**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**2,256**	**-**	**-**	**-**	**-**	**(2,256)**	**-**	**-**	**-**
Payment of dividends [Note 21(g)]	**-**	**-**	**-**	**-**	**-**	**-**	**(710,123)**	**(710,123)**	**(16,655)**	**(726,778)**
Balance at 31 December 2018	**1,775,308**	**903,877**	**312,000**	**(81,380)**	**(242,733)**	**(4,124)**	**17,481,156**	**20,144,104**	**621,585**	**20,765,689**

Mashreqbank PSC Group

Consolidated statement of cash flows

		For the year ended 31 December			
		2018		2017	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		**2,089,823**	**568,969**	2,167,218	590,041
Adjustments for:					
Depreciation of property and equipment	13	**154,613**	**42,094**	150,600	41,002
Allowances for impairment, net	31	**1,230,255**	**334,946**	1,487,682	405,032
Loss on disposal of property and equipment	30	**15,410**	**4,195**	1,566	426
Loss from disposal of investment properties	30	**-**	**-**	300	82
Unrealised loss / (gain) of other financial assets held at FVTPL	29	**8,302**	**2,260**	(30,380)	(8,271)
Fair value adjustments of investment properties	30	**27,806**	**7,570**	773	210
Net realized gain from sale of other financial assets measured at FVTPL	29	**(5,033)**	**(1,370)**	(44,744)	(12,182)
Dividend income from other financial assets measured at FVTOCI	29	**(18,146)**	**(4,940)**	(22,476)	(6,119)
Net realised gain from sale of other financial assets measured at amortised cost/FVTOCI	29	**(11,100)**	**(3,022)**	(8,636)	(2,351)
Unrealised (loss)/gain on derivatives	30	**3,992**	**1,087**	(64)	(17)
Operating cash flows before tax paid and changes in operating assets and liabilities		**3,495,922**	**951,789**	3,701,839	1,007,853
Tax paid		**(24,605)**	**(6,699)**	(77,688)	(21,152)
Changes in assets and liabilities					
Decrease in deposits with central banks		**2,533,730**	**689,826**	2,015,817	548,820
Increase in deposits and balances due from banks maturing after three months		**(1,073,364)**	**(292,231)**	(915,762)	(249,323)
Increase in loans and advances measured at amortised cost		**(4,949,217)**	**(1,347,459)**	(1,319,000)	(359,107)
Increase in Islamic financing and investment products measured at amortised cost		**(3,750,692)**	**(1,021,152)**	(1,867,335)	(508,395)
(Increase)/decrease in other assets		**(3,068,422)**	**(835,399)**	135,979	37,022
Decrease in financial assets carried at FVTPL		**53,995**	**14,701**	771,440	210,030
Increase/(decrease) in repurchase agreements with banks maturing after three months		**858,410**	**233,708**	(48,417)	(13,182)
Increase/(decrease) in customers' deposits		**3,141,647**	**855,335**	(566,916)	(154,347)
Increase/(decrease) in Islamic customers' deposits		**4,015,832**	**1,093,338**	(412,509)	(112,308)
Increase/(decrease) in deposits and balances due to banks maturing after three months		**1,026,771**	**279,546**	(8,295,108)	(2,258,401)
(Decrease)/increase in insurance and life assurance funds		**(46,392)**	**(12,631)**	71,937	19,585
Increase in other liabilities		**4,525,603**	**1,232,127**	54,304	14,785
Net cash generated from/(used in) operating activities		**6,739,218**	**1,834,799**	(6,751,419)	(1,838,120)

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

		For the year ended 31 December			
		2018		2017	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	**(312,474)**	**(85,073)**	(332,614)	(90,556)
Proceeds from sale of property and equipment		**810**	**221**	3,110	847
Proceeds from sale of investment properties		**-**	**-**	2,100	572
Net increase/(decrease) in non-trading investments		**567,173**	**154,417**	(1,535,999)	(418,186)
Dividend income from financial assets measured at FVTOCI	29	**18,146**	**4,940**	22,476	6,119
Net cash generated from/(used in) investing activities		**273,655**	**74,505**	(1,840,927)	(501,204)
Cash flows from financing activities					
Dividend paid		**(726,778)**	**(197,870)**	(727,663)	(198,111)
Medium term notes issued during the year		**6,976,005**	**1,899,266**	5,958,877	1,622,346
Medium term notes redeemed during the year		**(5,016,647)**	**(1,365,817)**	(4,704,705)	(1,280,889)
Additional contribution to non-controlling interests		**4,463**	**1,215**	-	-
Net cash generated from financing activities		**1,237,043**	**336,794**	526,509	143,346
Net increase/(decrease) in cash and cash equivalents		**8,249,916**	**2,246,098**	(8,065,837)	(2,195,978)
Net foreign exchange difference		**(22,217)**	**(6,050)**	231,775	63,100
Cash and cash equivalents at 1 January		**12,479,375**	**3,397,598**	20,313,437	5,530,476
Cash and cash equivalents at 31 December	35	**20,707,074**	**5,637,646**	12,479,375	3,397,598

1 General information

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

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

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

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

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **IFRS 15, 'Revenue from contracts with customers'** - The standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises 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. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

- **Amendment to IFRS 15, 'Revenue from contracts with customers'** - The amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendment to IAS 40, 'Investment Property'** - The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of an investment property. The change must be supported by evidence. It was confirmed that a change in intention, in isolation, is not enough to support a transfer to or from the investment property.

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

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

- **Amendment to IFRS 2, 'Share-Based Payment'** - The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash – settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated if it was wholly owned equity – settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority.

- **Amendments to IFRS 4, 'Insurance contracts' -** The amendment address the concerns about the effective dates of IFRS 9, 'Financial Instruments' and the forth-coming new insurance contracts standard. The amendment introduces two approaches for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirement, and the 'overlay approach'. Under overlay approach, an insurer is permitted to reclassify in respect of certain financial assets – from profit or loss to other comprehensive the difference between the amount that is reported in profit or loss account under IFRS 9 and the amount that would have been reported in profit or loss under IAS 39. The Group has elected to apply neither temporary exemption nor the overlay approach.

- **IFRIC 22, 'Foreign currency transactions and advance consideration' -** The interpretation considers how to determine the date of transaction when applying the standard on applying the date of transactions, IAS 21. The date of transaction determines the exchange rate to be used on initial recognition to be used on an initial recognition of a related asset, expense or income. The interpretation provides guidance for when a single payment / receipt is made, as well as for situations where multiple payments / receipts are made.

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

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

- **IFRS 9, 'Financial instruments'** - The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

  The Group has in previous years adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments. The Group adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018.

  The impact of IFRS 9 on the consolidated financial statements of the Group has been disclosed in Note 3.3(a).

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
Amendment to IFRS 9, 'Financial instrument' - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss. There is no material impact on the consolidated financial statements of the Group from the adoption of above amendment on 1 January 2019.	1 January 2019
IFRS 16, 'Leases' - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. There is no material impact on the consolidated financial statements of the Group from the adoption of this new standard on 1 January 2019.	1 January 2019

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRIC 23 Uncertainty over Income Tax Treatments – The interpretation address the determination of taxable profit (tax loss) tax bases, 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 ➢ The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates ➢ The effect of changes in facts and circumstances There is no material impact on the consolidated financial statements of the Group from the adoption of above interpretations on 1 January 2019.	1 January 2019

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2022, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. The Group is currently assessing the impact of the above new standard on the consolidated financial statements.	1 January 2022

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2018 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares, units in mutual funds, investment properties and derivatives that are classified as either fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVTOCI) that are measured at fair value.

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

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

3.3 Changes in accounting policies

The Group has adopted the impairment requirements of IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures reflect those disclosures made in the prior period.

The adoption of the impairment requirements of IFRS 9 has resulted in changes in accounting policies for impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

3 Summary of significant accounting policies

3.3 Changes in accounting policies (continued)

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in more detail in Note 3.14.

(a) Reconciliation of impairment allowance balance from IAS 39 / IAS 37 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model and IAS 37 provision to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loss allowance under IAS 39 / Provision under IAS 37	**Remeasure-ments**	**ECL under IFRS 9**
	AED'000	AED'000	AED'000
On balance sheet			
Cash and balances with central bank	-	-	-
Deposits and balances due from banks	-	78,758	78,758
Other financial assets measured at fair value	-	-	-
Other financial assets measured at amortised cost	-	20,254	20,254
Loans and advances measured at amortised cost	3,069,205	907,731	3,976,936
Islamic financing and investment products measured at amortised cost	117,127	21,877	139,004
Other assets*	138,613	349,655	488,268
	3,324,945	1,378,275	4,703,220
Off balance sheet			
Provision (loans commitments, LCs and LGs)	-	220,710	220,710
Total	3,324,945	1,598,985	4,923,930

Further information on measurement of ECL is included in Note 43.

* This includes share of non – controlling interest of AED 126 million

The total measurement loss of AED 1,599 million was recognized in opening reserve as at 1 January 2018.

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

Business combinations

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

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

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

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

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

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

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

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

3.5 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 Summary of significant accounting policies (continued)

3.6 Revenue recognition

(a) Interest income and expense

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

(b) Income from Islamic financing and investments products

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

(c) Fee and commission income and expenses

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

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

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

(d) Dividend income

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

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

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

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

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

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

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

(g) Rental income

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

3.7 Leasing

Leases of property and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

3 Summary of significant accounting policies (continued)

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 UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

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

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

3.9 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 Investment properties

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

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

3 Summary of significant accounting policies (continued)

3.10 Investment properties (continued)

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

3.11 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

	Years
Properties for own use	20 – 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.

3 Summary of significant accounting policies (continued)

3.11 Property and equipment (continued)

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

3.12 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.

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets

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

(i) Classification of financial assets

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

Debt instruments:

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

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

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test').

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

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

Equity instruments:

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

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

Amortised cost and effective interest method

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method (continued)

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

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

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

(ii) Impairment of financial assets

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

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

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

(iii) Modification of loans

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

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

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

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

Derecognition other than on a modification

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition other than on a modification (continued)

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

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

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

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

3.14.2 Financial liabilities

Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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

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

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

3.18.5 Reinsurance contracts

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

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

(c) Life assurance fund

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

(d) Unit-linked liabilities

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

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

Deferred Policy Acquisition Costs (DAC)

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

• For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;

• For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and

• For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

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

3.18.8 Liability adequacy test

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

3 Summary of significant accounting policies (continued)

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

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

(i) 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.

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.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

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.

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.

Mudaraba

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

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2018 is not materially different from the provision computed in accordance with the UAE Labour Law.

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

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

3.22 Acceptances

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

3.23 Cash and cash equivalent

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. 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.

4.3 Derivative financial instruments

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

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

4.3 Derivative financial instruments (continued)

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

(b) An appropriate discount rate of the instrument. Management determines this rate 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.

4.4 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.

4.5 The ultimate liability arising from claims made under insurance contracts

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

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

4.6 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 financial assets are appropriately classified and measured.

5 Cash and balances with central banks

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

	2018 AED'000	2017 AED'000
Cash on hand	**919,071**	1,150,663
Balances with central banks:		
Current accounts and other balances	**8,973,020**	6,958,948
Statutory deposits	**6,255,735**	6,639,465
Certificates of deposit	**4,000,000**	2,150,000
	20,147,826	16,899,076

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

	2018 AED'000	2017 AED'000
Within the UAE.	**12,715,833**	11,406,485
Outside the UAE.	**7,431,993**	5,492,591
	20,147,826	16,899,076

(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 2.23% (31 December 2017: 1.07%) 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:

	2018 **AED'000**	2017 AED'000
Demand	**1,362,012**	1,838,441
Overnight	**183,650**	32,547
Time	**21,530,255**	18,264,439
	23,075,917	20,135,427
Less: Allowance for impairment	**(66,749)**	-
	23,009,168	20,135,427

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

	2018 **AED'000**	2017 AED'000
Banks within the UAE.	**3,384,692**	3,218,938
Banks outside the UAE.	**19,691,225**	16,916,489
	23,075,917	20,135,427
Less: Allowance for impairment	**(66,749)**	-
	23,009,168	20,135,427

(c) *Allowance for impairment movement:*

	2018 **AED'000**	2017 AED'000
At beginning of the year	**-**	-
Initial application of IFRS 9 [Note 3.3(a)]	**78,758**	-
(Reversal) / charge during the year (Note 31)	**(13,068)**	5,174
Interest in suspense	**1,943**	-
Exchange rate and other adjustments	**(456)**	-
Written off during the year	**(428)**	(5,174)
At end of the year	**66,749**	-

7 Other financial assets

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

	2018 AED'000	2017 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**283,013**	437,727
Equities		
Quoted	**10,752**	3,548
Unquoted	**220**	222
Mutual and other funds	**597,921**	523,527
	891,906	965,024
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**296,160**	-
Equities		
Quoted	**356,824**	355,635
Unquoted	**192,869**	259,886
	845,853	615,521
Total other financial assets measured at fair value (A)	**1,737,759**	1,580,545
(iii) Other financial assets measured at amortised cost		
Debt securities	**11,737,563**	12,583,404
Less: Allowance for impairment	**(56,329)**	-
Total other financial assets measured at amortised cost (B)	**11,681,234**	12,583,404
Total other financial assets [(A) +(B)]	**13,418,993**	14,163,949

7 Other financial assets (continued)

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

	2018 AED'000	2017 AED'000
Within the UAE.	**2,149,263**	3,316,519
Outside the UAE.	**11,326,059**	10,847,430
	13,475,322	14,163,949
Less: Allowance for impairment	**(56,329)**	-
	13,418,993	14,163,949

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

	2018 AED'000	2017 AED'000
Government and public sector	**9,175,952**	7,914,696
Commercial and business	**951,422**	473,889
Financial institutions	**3,261,847**	5,759,337
Other	**29,772**	16,027
	13,418,993	14,163,949

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

	2018 AED'000	2017 AED'000
At the beginning of the year	**-**	111,998
Initial application of IFRS 9 [Note 3.3(a)]	**20,254**	-
Charge during the year (Note 31)	**36,083**	-
Exchange rate and other adjustments	**(8)**	-
Written off during the year	**-**	(111,998)
At end of the year	**56,329**	-

(e) The fair value of other financial assets measured at amortised cost amounted to AED 11.50 billion as of 31 December 2018 (31 December 2017: AED 12.58 billion) (Note 43).

(f) At 31 December 2018 certain financial assets at amortised costs included in debt securities aggregating to a notional value of AED 1,721 million (fair value: AED 1,693 million) [31 December 2017: notional value AED 584 million (fair value: AED 597 million)] were collateralised against the repurchased agreements with Banks ("Repo") of AED 1,503 million (31 December 2017: AED 557 million) (Note 15).

7 Other financial assets (continued)

(g) Other financial assets measured at FVTPL include AED 200 million (31 December 2017: AED 189 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the quoted market price.

(h) As of 31 December 2018, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the year ended 31 December 2018, dividends received from other financial assets measured at FVTOCI amounting to AED 18 million (31 December 2017: AED 22 million) were recognised as investment income in the consolidated statement of profit or loss (Note 29).

(j) During the year ended 31 December 2018, change in fair value of other financial assets measured at FVTPL resulted in loss of AED 8 million (31 December 2017: a gain of AED 30 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) During the year ended 31 December 2018, change in fair value of other financial assets measured at FVTOCI resulted in loss of AED 73 million (31 December 2017: a gain of AED 47 million) and was recognised in the consolidated statement of comprehensive income.

(l) During the year ended 31 December 2018, the Group purchased and disposed equity shares amounted to AED 1,201 million (31 December 2017: AED 585 million) and AED 1,198 million (31 December 2017: AED 754 million) respectively.

8 Loans and advances measured at amortised cost

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

	2018 AED'000	2017 AED'000
Loans	**53,005,765**	49,882,585
Overdrafts	**3,942,492**	3,616,522
Credit cards	**2,247,672**	2,508,764
Others	**637,994**	455,499
Total	**59,833,923**	56,463,370
Less: Allowance for impairment	**(3,480,583)**	(3,069,205)
	56,353,340	53,394,165

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

	2018 AED'000	2017 AED'000
Manufacturing	**6,788,348**	4,065,460
Construction	**9,791,085**	7,007,373
Trade	**10,671,456**	8,089,372
Transport and communication	**3,779,934**	3,687,823
Services	**7,364,593**	7,305,890
Financial institutions	**1,043,886**	1,250,621
Personal	**14,408,701**	15,956,457
Government and related enterprises	**5,985,920**	9,100,374
	59,833,923	56,463,370
Less: Allowance for impairment	**(3,480,583)**	(3,069,205)
	56,353,340	53,394,165

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only and accordingly not taken to recognised in the statement of profit or loss. As at 31 December 2018 and 2017, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

8 Loans and advances measured at amortised cost (continued)

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

	2018 **AED'000**	2017 AED'000
At beginning of the year	**3,069,205**	3,220,533
Initial application of IFRS 9 [Note 3.3(a)]	**907,731**	-
Charge during the year (Note 31)	**669,752**	792,976
Interest in suspense	**281,532**	166,445
Exchange rate and other adjustments	**2,468**	17,328
Written off during the year	**(1,450,105)**	(1,128,077)
At end of the year	**3,480,583**	3,069,205

(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 at customer level 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:

	2018 **AED'000**	2017 AED'000
Financing		
Murabaha	**7,181,840**	5,699,170
Ijara	**6,036,980**	3,900,129
	13,218,820	9,599,299
Investment		
Mudaraba	**18,466**	17,866
Wakala	**10,948**	30,278
	29,414	48,144
Total	**13,248,234**	9,647,443
Less: Unearned income	**(192,923)**	(190,849)
Allowance for impairment	**(139,056)**	(117,127)
	12,916,255	9,339,467

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:

	2018 AED'000	2017 AED'000
Manufacturing	**520,900**	617,632
Construction	**3,124,317**	2,078,178
Trade	**1,464,250**	752,398
Transport and communication	**345,286**	256,280
Services	**4,238,157**	2,900,735
Financial institutions	**734,464**	464,216
Personal	**2,121,271**	2,124,242
Government and related enterprises	**699,589**	453,762
Total	**13,248,234**	9,647,443
Less: Unearned income	**(192,923)**	(190,849)
Allowance for impairment	**(139,056)**	(117,127)
	12,916,255	9,339,467

(c) Allowance for impairment movement:

	2018 AED'000	2017 AED'000
At beginning of the year	**117,127**	55,245
Initial application of IFRS 9 [Note 3.3(a)]	**21,877**	-
Impairment allowance during the year, net (Note 31)	**122,556**	57,320
Profit in suspense	**158**	5,957
Exchange rate and other adjustments	**(50)**	-
Written off during the year	**(122,612)**	(1,395)
At end of the year	**139,056**	117,127

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

10 Other assets

	2018 AED'000	2017 AED'000
Interest receivable	**195,457**	199,276
Property acquired in settlement of debts*	**37,101**	-
Prepayments	**139,464**	119,419
Positive fair value of derivatives (Note 41)	**557,290**	492,580
Insurance related receivables (net of impairment)	**668,498**	1,491,343
Credit card related receivables	**97,092**	119,063
Taxes paid in advance	**150,835**	86,206
Goodwill (Note 11)	**10,896**	14,414
Others	**475,790**	493,366
	2,332,423	3,015,667

* As of 31 December 2018, property acquired in settlement of debts includes property with a cost of AED 96 million against which a provision of AED 59 million is held (31 December 2017: AED 62 million which was fully provided). The property is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

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. Impairment of goodwill is considered to be immaterial for the purpose of these Group financial statements.

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (31 December 2017: 32.61%).

12 Investment properties

	2018 AED'000	2017 AED'000
At fair value		
At beginning of the year	**517,691**	520,864
Change in fair value during the year (Note 30)	**(27,806)**	(773)
Disposals during the year	**-**	(2,400)
At end of the year	**489,885**	517,691

12 Investment properties (continued)

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

The fair value of investment properties as at 31 December 2018 has been arrived at on the basis of valuations 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 observable market inputs, i.e. Level 2.

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 2017	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
Additions during the year	**-**	**32,552**	**81,544**	**198,378**	**312,474**
Transfers	**-**	**2,009**	**8,586**	**(10,595)**	**-**
Disposals/write-offs	**(40)**	**(21,037)**	**(21,615)**	**(6,814)**	**(49,506)**
At 31 December 2018	**845,860**	**506,431**	**556,136**	**389,467**	**2,297,894**
Accumulated depreciation and impairment					
At 1 January 2017	414,025	319,488	257,525	-	991,038
Charge for the year (Note 32)	18,416	58,604	73,580	-	150,600
Disposals/write-offs	(262,921)	(80,534)	(106,233)	-	(449,688)
At 31 December 2017	169,520	297,558	224,872	-	691,950
Charge for the year (Note 32)	**18,415**	**47,473**	**88,725**	**-**	**154,613**
Disposals/write-offs	**(20)**	**(12,630)**	**(17,607)**	**-**	**(30,257)**
At 31 December 2018	**187,915**	**332,401**	**295,990**	**-**	**816,306**
Carrying amount					
At 31 December 2018	**657,945**	**174,030**	**260,146**	**389,467**	**1,481,588**
At 31 December 2017	676,380	195,349	262,749	208,498	1,342,976

* Capital work-in-progress includes mainly new Head Office building under construction.

14 Deposits and balances due to banks

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

	2018 AED'000	2017 AED'000
Time	**5,697,662**	6,091,703
Demand	**1,941,701**	1,813,553
Overnight	**1,420,600**	1,408,174
	9,059,963	9,313,430

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

Banks within the UAE.	**762,035**	2,441,575
Banks outside the UAE.	**8,297,928**	6,871,855
	9,059,963	9,313,430

15 Repurchase agreements with banks

Repricing	**2018 AED'000**	2017 AED'000
1-3 months	**2,116,677**	557,183

The above repurchase agreements with banks are at an average interest rate of 2.65% (31 December 2017: 1.74%) per annum.

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

16 Customers' deposits

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

	2018 AED'000	2017 AED'000
Current and other accounts	**33,398,960**	41,112,782
Saving accounts	**3,038,875**	3,371,737
Time deposits	**36,084,021**	24,895,689
	72,521,856	69,380,208

(b) Analysis by industry sector:

	2018 AED'000	2017 AED'000
Government and public sector	**10,996,542**	6,584,226
Commercial and business	**42,455,084**	44,473,956
Personal	**15,628,411**	15,290,216
Financial institutions	**3,402,769**	3,004,561
Other	**39,050**	27,249
	72,521,856	69,380,208

17 Islamic customers' deposits

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

	2018 AED'000	2017 AED'000
Current and other accounts	**4,588,535**	3,382,619
Saving accounts	**145,446**	141,869
Time deposits	**5,962,726**	3,156,386
	10,696,707	6,680,874

(b) Analysis by industry sector:

	2018 AED'000	2017 AED'000
Government and public sector	**202,651**	137,302
Commercial and business	**4,614,834**	3,153,294
Personal	**825,034**	831,145
Financial institutions	**5,054,188**	2,559,133
	10,696,707	6,680,874

18 Other liabilities

	2018	2017
	AED'000	AED'000
Interest payable	**654,717**	371,635
Negative fair value of derivatives (Note 41)	**564,147**	440,829
Insurance premium collected in advance	**778,038**	732,757
Accrued expenses	**670,828**	624,844
Income received in advance	**383,040**	169,358
Pay orders issued	**433,040**	433,072
Provision for employees' end of service indemnity**	**219,324**	202,318
Provision for taxation	**105,025**	110,463
Others	**1,307,947**	856,300
Allowance for impairment – off balance sheet	**150,788**	-
	5,266,894	3,941,576

** Provision for employees' end of service indemnity included AED 203 million (31 December 2017: AED 189 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

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

19 Medium-term loans

	2018 **AED'000**	2017 AED'000
Medium term notes	**8,185,390**	6,226,032

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

Year	**2018** **AED'000**	2017 AED'000
2018	**-**	5,017,966
2019	**6,285,157**	249,530
2020	**978,310**	436,970
2021	**367,300**	183,650
2022	**337,916**	337,916
2023	**216,707**	-
	8,185,390	6,226,032

Medium term notes are denominated in following currencies:

	2018 **AED'000**	2017 AED'000
U.S. Dollars	**6,767,135**	5,141,833
Japanese Yen	**811,134**	573,156
Swiss Francs	**186,599**	190,379
Chinese Yuan	**-**	142,390
Euro	**420,522**	120,335
Australian Dollars	**-**	57,939
	8,185,390	6,226,032

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 2018, new medium-term notes of AED 7 billion were issued and AED 5 billion of medium-term notes were redeemed.

20 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 2017	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
Increase / (decrease)	**10,464**	**(44,913)**	**294**	**(11,125)**	**(1,113)**	**(46,393)**
At 31 December 2018	**381,712**	**535,289**	**118,098**	**493,213**	**7,990**	**1,536,302**

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.

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2018, 177,530,823 ordinary shares of AED 10 each (31 December 2017: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

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

(c) General reserve

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

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

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

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 73 million (31 December 2017: gain of AED 47 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 cross currency swap hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value for cross currency swap of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group’s accounting policy.

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 28 February 2018, the shareholders approved a cash dividend of 40% for the year ended 31 December 2017 (31 December 2016: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2016: AED 710 million).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

22 Non-controlling interests

	2018 AED'000	2017 AED'000
At beginning of the year	**762,974**	728,009
Initial application of IFRS 9 [Note 3.3(a)]	**(126,080)**	-
Profit for the year (Note 36)	**5,018**	37,210
Other comprehensive income for the year	**(8,135)**	15,295
Additional contribution received during the year	**4,463**	-
Dividends paid	**(16,655)**	(17,540)
At end of the year	**621,585**	762,974

23 Contingent liabilities and commitments

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

	2018 AED'000	2017 AED'000
Guarantees	**43,446,508**	41,576,490
Letters of credit	**8,051,513**	5,384,712
Commitments for acquisition of property and equipment	**483,598**	657,789
Operating lease commitments	**108,266**	98,753
Total	**52,089,885**	47,717,744

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2018 amounted to AED 4.26 billion (31 December 2017: AED 6.12 billion).

(c) Contingent liabilities and commitments – maturity profile

The maturity profile of the Group's contingent liabilities and commitments were as follows:

31 December 2018

	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	11,502,092	1,730,240	4,422,142	13,188,978	12,603,056	43,446,508
Letters of credit	4,972,072	539,769	1,026,279	1,513,393	-	8,051,513
Total	16,474,164	2,270,009	5,448,421	14,702,371	12,603,056	51,498,021

23 Contingent liabilities and commitments (continued)

(c) Contingent liabilities and commitments – maturity profile (continued)

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

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

(d) *Operating lease commitments*

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

	2018 AED'000	2017 AED'000
Less than 1 year	**57,739**	37,500
1 to 5 years	**36,706**	47,458
Over 5 years	**13,821**	13,795
Total	**108,266**	98,753

24 Interest income

	2018 **AED'000**	2017 AED'000
Loans and advances	**3,656,967**	3,436,536
Banks	**910,282**	682,467
Central banks	**168,544**	90,482
Other financial assets measured at amortised cost	**604,288**	474,613
Others	**86,982**	80,514
	5,427,063	4,764,612

25 Income from Islamic financing and investment products

	2018 **AED'000**	2017 AED'000
Financing		
Murabaha	**349,586**	204,112
Ijara	**208,934**	155,240
Other	**6,717**	26,417
	565,237	385,769
Investment		
Mudaraba	**278**	1,088
Wakala	**5,053**	19,819
	5,331	20,907
Total	**570,568**	406,676

26 Interest expense

	2018 **AED'000**	2017 AED'000
Customers' deposits	**1,386,702**	885,366
Deposits and balances due to banks	**493,950**	412,665
Medium-term loans	**216,134**	142,419
	2,096,786	1,440,450

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 Shari'ah Supervisory Board.

28 Net fee and commission income

	2018 **AED'000**	2017 AED'000
Fee and commission income		
Commission income	**531,387**	577,370
Insurance commission	**281,819**	327,951
Fees and charges on banking services	**607,206**	582,066
Credit card related fees	**1,252,264**	1,266,160
Others	**184,887**	234,929
Total	**2,857,563**	2,988,476
Fee and commission expenses		
Commission expense	**(41,861)**	(19,376)
Insurance commission	**(387,889)**	(381,964)
Credit card related expenses	**(944,904)**	(951,176)
Others	**(69,429)**	(78,361)
Total	**(1,444,083)**	(1,430,877)
Net fee and commission income	**1,413,480**	1,557,599

29 Net investment income

	2018 **AED'000**	2017 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**5,033**	44,744
Unrealised (loss)/gain of other financial assets measured at FVTPL [Note 7(j)]	**(8,302)**	30,380
Dividend income from other financial assets measured at FVTPL	**551**	618
Net realised gain from sale of other financial assets measured at amortised cost / FVTOCI	**11,100**	8,636
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**18,146**	22,476
	26,528	106,854

30 Other income, net

	2018 AED'000	2017 AED'000
Foreign exchange gains	**360,702**	439,552
Insurance related income (Note 36)	**442,661**	435,199
Loss on disposal of property and equipment	**(15,410)**	(1,566)
Loss from disposal of investment properties	**-**	(300)
Unrealised (loss)/gain on derivatives	**(3,992)**	64
Unrealised loss on investment properties (Note 12)	**(27,806)**	(773)
Others	**99,063**	(99,910)
	855,218	772,266

31 Allowances for impairment, net

	2018 AED'000	2017 AED'000
Deposits and balances due from banks [Note 6(c)]	**(13,068)**	5,174
Other financial assets measured at amortised cost (debt securities) [Note 7(d)]	**36,083**	-
Loans and advances measured at amortised cost [Note 8(d)]	**669,752**	792,976
Islamic financing and investment products measured at amortised cost [Note 9(c)]	**122,556**	57,320
Other assets	**42,740**	36,280
Change in impairment allowance on off-balance sheet items	**(69,834)**	-
Loans and advances measured at amortized cost written off	**519,130**	671,802
Recovery of loans and advances measured at amortised cost previously written off	**(77,104)**	(75,870)
	1,230,255	1,487,682

32 General and administrative expenses

	2018 AED'000	2017 AED'000
Salaries and employees related expenses	**1,540,513**	1,371,069
Depreciation on property and equipment (Note 13)	**154,613**	150,600
Social contribution	**68**	-
Others	**923,016**	839,087
	2,618,210	2,360,756

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.

	2018	2017
Profit for the year (AED'000) (Attributed to owners of the Parent)	**2,060,200**	2,052,320
Number of ordinary shares outstanding [Note 21 (a)]	**177,530,823**	177,530,823
Basic and diluted earnings per share (AED)	**11.60**	11.56

34 Proposed dividends

The board of Directors has proposed 40% Cash Dividend at their meeting held on 21 January 2019.

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:

	2018 AED'000	2017 AED'000
Cash on hand	**919,071**	1,150,663
Current accounts and other balances with central banks	**8,973,020**	6,958,948
Certificates of deposit maturing within 3 months	**4,000,000**	-
Deposits and balances due from banks maturing within 3 months	**14,912,292**	13,046,226
Balances due to banks and financial institutions maturing within 3 months	**(6,839,041)**	(8,119,279)
Repurchase agreements with banks maturing within 3 months	**(1,258,268)**	(557,183)
	20,707,074	12,479,375

36 Investment in subsidiaries

(a) At 31 December 2018, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct subsidiaries:

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

36 Investment in subsidiaries (continued)

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

Name of subsidiary	Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
	2018	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC) Group	**3,049**	37,863	**616,263**	757,797
Individually immaterial subsidiaries with non - controlling interests	**1,969**	(653)	**5,322**	5,177
	5,018	37,210	**621,585**	762,974

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 357 million (31 December 2017: AED 322 million).

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

36 Investment in subsidiaries (continued)

	2018	2017
	AED'000	AED'000
Statement of financial position		
Total assets	**6,717,228**	7,404,690
Total liabilities	**5,046,017**	5,342,944
Net equity	**1,671,211**	2,061,746

	2018	2017
	AED'000	AED'000
Statement of comprehensive income		
Net insurance premium revenue	**1,545,473**	1,453,899
Net claims incurred	**(1,102,812)**	(1,018,700)
Insurance related income (Note 30)	**442,661**	435,199
Net commission and other (loss)/income	**(64,122)**	(10,476)
Net investment income	**49,131**	76,377
Net expenses	**(417,452)**	(396,616)
Profit for the year	**10,218**	104,484
Other comprehensive income	**(8,472)**	45,435
Total comprehensive income	**1,746**	149,919
Statement of cash flows		
Net cash generated from operating activities	**433,460**	39,020
Net cash (used in)/generated from investing activities	**(195,443)**	77,633
Net cash flows used in financing activities	**(212,937)**	(172,992)
Net increase/(decrease) in cash and cash equivalents	**25,080**	(56,339)

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 88.08% (31 December 2017: 87.99%) of the issued and paid up capital of the bank.

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

	2018	2017
	AED’000	AED’000
Balances		
Loans and advances	**3,853,217**	3,310,595
Deposits/ financial instruments under lien	**1,112,073**	1,513,781
Letter of credit and guarantees	**1,269,230**	1,333,097

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

Transactions	**2018**	**2017**
	AED’000	**AED’000**
Interest income	**183,247**	137,850
Interest expense	**2,973**	7,650
Other income	**47,961**	53,314

(e) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 135 million (31 December 2017: AED 130 million).

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2018			31 December 2017		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**77,304,138**	**64,174,685**	**33,340,165**	72,199,206	63,381,256	31,563,594
Other Middle East Countries	**24,014,869**	**21,496,445**	**6,969,270**	21,383,310	15,283,490	7,048,442
O.E.C.D.	**13,869,539**	**16,844,517**	**4,378,738**	11,396,159	13,379,797	4,114,015
Others	**24,743,061**	**16,650,271**	**6,809,848**	20,209,561	12,017,273	4,235,151
	139,931,607	**119,165,918**	**51,498,021**	125,188,236	104,061,816	46,961,202

(b) Industry Sectors

	31 December 2018			31 December 2017		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'00`0	AED'000
Government and public sector	**15,701,733**	**11,503,989**	**168,460**	17,156,003	6,871,995	2,318,647
Commercial & business	**56,465,103**	**58,017,669**	**38,418,876**	42,246,661	55,233,697	33,558,324
Personal	**15,667,433**	**17,211,465**	**922,371**	17,201,011	16,723,583	900,117
Financial institutions	**49,863,328**	**32,123,540**	**11,988,314**	45,487,290	24,682,712	10,184,114
Others	**2,234,010**	**309,255**	-	3,097,271	549,829	-
	139,931,607	**119,165,918**	**51,498,021**	125,188,236	104,061,816	46,961,202

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:

(i) The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the UAE. 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.

(ii) The **Domestic Retail** segment includes products and services offered to individuals or small businesses within the UAE. 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.

(iii) 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.

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

(v) 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.

(vi) 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.

39 Segmental information (continued)

Reportable segments (continued)

(vii) 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 tax expenses.

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2018							
	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	948,650	989,103	214,158	661,030	414,748	59,078	356,295	3,643,062
Other income, net	410,769	557,056	388,207	508,082	120,438	307,341	3,333	2,295,226
Total operating income	1,359,419	1,546,159	602,365	1,169,112	535,186	366,419	359,628	5,938,288
General and administrative expenses								(2,618,210)
Allowances for impairment								(1,230,255)
Profit before taxes								2,089,823
Tax expense								(24,605)
Profit for the year								2,065,218
Attributed to:								
Owners of the Parent								2,060,200
Non-controlling interests								5,018
								2,065,218
Segment Assets	34,314,803	13,102,408	19,705,166	35,721,037	13,955,371	4,110,739	19,022,083	139,931,607
Segment Liabilities	37,229,466	21,959,231	12,726,519	21,936,174	11,258,447	2,452,615	11,603,466	119,165,918

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2017							
	Domestic corporate	Domestic retail	Treasury & capital markets	International banking	Islamic banking	Insurance	Head office	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	877,143	1,013,250	84,796	755,861	345,152	47,744	454,991	3,578,937
Other income, net	483,763	517,012	531,633	485,451	133,957	389,936	(105,033)	2,436,719
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
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

39 Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		Non-current assets **	
	2018	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000
UAE	**5,006,022**	4,931,410	**1,917,671**	1,823,162
Other Middle East countries	**647,472**	793,124	**36,711**	28,033
O.E.C.D.	**219,950**	234,515	**15,114**	7,862
Other countries	**64,844**	56,607	**1,977**	1,610
	5,938,288	6,015,656	**1,971,473**	1,860,667

* 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 2018 and 2017.

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 2018:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	20,147,826	20,147,826
Deposits and balances due from banks	-	-	23,009,168	23,009,168
Other financial assets measured at fair value	891,906	845,853	-	1,737,759
Other financial assets measured at amortised cost	-	-	11,681,234	11,681,234
Loans and advances measured at amortised cost	-	-	56,353,340	56,353,340
Islamic financing and investment products measured at amortised cost	-	-	12,916,255	12,916,255
Acceptance	-	-	9,782,129	9,782,129
Other assets	557,290	-	1,473,935	2,031,225
Total	1,449,196	845,853	135,363,887	137,658,936

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	9,059,963	9,059,963
Repurchase agreements with banks	-	-	2,116,677	2,116,677
Customers' deposits	-	-	72,521,856	72,521,856
Islamic customers' deposits	-	-	10,696,707	10,696,707
Acceptance	-	-	9,782,129	9,782,129
Other liabilities	564,147	-	3,217,320	3,781,467
Medium-term loans	-	-	8,185,390	8,185,390
Total	564,147	-	115,580,042	116,144,189

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 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
Other financial assets measured at amortised cost	-	-	12,583,404	12,583,404
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
Acceptance	-		6,379,818	6,379,818
Other assets	492,580	-	2,303,048	2,795,628
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
Acceptance	-	-	6,379,818	6,379,818
Other liabilities	440,829	-	2,285,851	2,726,680
Medium-term loans	-	-	6,226,032	6,226,032
Total	440,829	-	100,823,396	101,264,225

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.

41 Derivatives (continued)

31 December 2018

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity: Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	**259,450**	**292,853**	**53,306,724**	**38,704,871**	**5,385,964**	**4,967,162**	**4,002,050**	**246,677**
Foreign exchange options (bought)	**-**	**5,329**	**1,191,765**	**877,389**	**-**	**314,376**	**-**	**-**
Foreign exchange options (sold)	**5,585**	**-**	**1,166,682**	**852,306**	**-**	**314,376**	**-**	**-**
Interest rate swaps	**251,274**	**245,948**	**21,455,121**	**84,167**	**3,625,894**	**439,918**	**11,115,352**	**6,189,790**
Credit default swaps	**-**	**553**	**12,616**	**-**	**-**	**-**	**12,616**	**-**
Futures contracts purchased (Customer)	**1,138**	**-**	**674,327**	**650,480**	**884**	**22,963**	**-**	**-**
Futures contracts sold (Customer)	**-**	**18,251**	**703,213**	**699,182**	**4,031**	**-**	**-**	**-**
Futures contracts sold (Bank)	**-**	**1,213**	**701,052**	**654,927**	**23,162**	**22,963**	**-**	**-**
Futures contracts purchased (Bank)	**18,429**	**-**	**703,213**	**699,182**	**4,031**	**-**	**-**	**-**
Total	**535,876**	**564,147**	**79,914,713**	**43,222,504**	**9,043,966**	**6,081,758**	**15,130,018**	**6,436,467**
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	**21,414**	**-**	**365,840**	**-**	**-**	**-**	**172,160**	**193,680**
Total	**557,290**	**564,147**	**80,280,553**	**43,222,504**	**9,043,966**	**6,081,758**	**15,302,178**	**6,630,147**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

41 Derivatives (continued)

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

42 Capital management

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

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

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

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

Regulatory capital

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

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

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

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

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

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

42 Capital management (continued)

Regulatory capital (continued)

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

As per the Central bank regulation for Basel III, the capital requirement as at 31st December 2018 is 12.375% 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); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
(iv) Additionally, banks are required to maintain capital conservation buffer of 1.875% in 2018.

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2018 and 31 December 2017 were as follows:

	2018 AED'000	2017 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**1,775,308**	1,775,308
Statutory and legal reserve	**903,877**	901,621
General reserve	**312,000**	312,000
Currency translation reserve	**(81,380)**	(59,163)
Investments revaluation reserve	**(242,733)**	(184,989)
Retained earnings	**16,771,033**	16,908,546
Non-controlling interests – eligible amount	**4,971**	4,881
Less: Regulatory deductions	**(46,410)**	(42,334)
Total (A)	**19,396,666**	19,615,870
Additional Tier 1 capital	**-**	-
Total Tier 1 capital (B)	**19,396,666**	19,615,870
Tier 2 capital		
General provision	**1,422,061**	1,376,731
Total	**1,422,061**	1,376,731
Total capital base (C)	**20,818,727**	20,992,601
Credit risk	**113,764,844**	110,138,527
Market risk	**2,253,118**	1,744,305
Operational risk	**10,527,207**	10,428,732
Total risk-weighted assets (D)	**126,545,169**	122,311,564
Capital adequacy ratio [(C)/(D) x 100]	**16.45%**	17.16%

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

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

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

43 Risk management

The 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 Group's 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") through the Board Risk Committee (the "BRC") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by various committees including the Enterprise Risk Committee, Management Credit Committee (MCC), Assets and Liabilities Committee (ALCO) and Investment Committee etc. These committees except the MCC work under the terms of reference set by the BoD and approve all risk management policies for the Bank.

While the Board carries ultimate responsibility for overall risk management within the Bank, the BRC will assist the Board in discharging its responsibilities in relation to 'Risk Management' the Bank which includes identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Bank. The BRC will make recommendations to the Board for approval of the Group's overall Risk Appetite.

The Enterprise Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Group. The Enterprise 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 Enterprise Risk Committee also monitors and establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain asset quality.

The Management Credit Committee (MCC) is a committee established as the highest credit approval committee within Mashreq Risk Management. The committee will approve the credit proposals for corporate clients and Financial Institutions originated from CIBG and IBG.

43 Risk management (continued)

Risk Management Framework (continued)

The Risk Management Group function is independent of the business groups and is led by a qualified Group Chief Risk Officer, 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).

Capital Management

Mashreq's capital management function is designed to ensure that regulatory requirements are met at all times and that the Group including its branches and subsidiaries are capitalized in line with the Group's risk appetite and target ratios, both of which are approved by the Board as part of the ICAAP approval.

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

43 Risk management

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy. Stress testing is a key management tool within the Group and is used to evaluate the sensitivity of the current and forward risk profile relative to different levels of shocks. Stress testing within the Group is subject to the Group's stress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. The primary governance committee overseeing risk appetite and stress testing is the Enterprise Risk Committee.

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Credit risk management

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

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a risk management department which reports regularly to the Risk Management Committee.

43 Risk management (continued)

Credit risk management (continued)

Loans and advances (including loan commitments, LCs and LGs)

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

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

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

Credit risk grading

The Group use specific internal rating models tailored to the various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model.

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

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

These risk ratings have been mapped into 5 Grades which are defined below:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	Fair Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80,90	Impaired

43 Risk management (continued)

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recongnition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date.

Quantitative criteria

Corporate loans:

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

- Operating Performance
- Operating Efficiency
- Debt Service
- Liquidity Assessment
- Capital structure

Retail:

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

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

43 Risk management (continued)

Expected credit loss measurement (continued)

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

Qualitative criteria:

Corporate Loans

For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following Default Risk Indicator's (DRI):

- Past Due
- Net Worth Erosion
- Fraudulent Activity
- Distressed Restructure
- Financial Covenants Breach
- Significant Operations Disruption

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

- Management
- Industry Outlook
- Financial Conduct
- Income Stability
- Lifecycle Stage
- Auditor Information

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2018.

Backstop:

If the borrower is more than 30 days past due on its contractual payments a backstop is applied and the financial asset is considered to have experienced a significant increase in credit risk.

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria:

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

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

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

Mashreq has implemented a risk rating model since 2005 which has enabled the Bank to collect historical risk ratings since 2005 and build point in time credit transition matrices for the last 12 years.

This has enabled the bank to derive a credit index using the historical transition matrices. The credit index correlates with specific macro economic factors, which have been statistically, established through regression models.

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

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

These models were used to forecast future credit transitions using Moody's research macro economic forecast under the IFRS 9 scenarios i.e. upwards and downwards.

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

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

Mashreq has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 20 years of data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

43 Risk management (continued)

Credit risk management (continued)

Forward looking information incorporated in the ECL models

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

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out of the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment or a long run average growth rate (e.g. GDP) over a period of two to five year). The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Sensitivity analysis

Mashreq has calculated ECL at an individual financial instrument level, hence does not require any grouping of financial instruments in the process of loss calculation.

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

- Government debt to GDP (% Change, Lag 9 M)
- Gross fixed investments (% Change, Lag 9 M)

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to a relative change in the forecasted Gross Domestic Product (GDP) and Gross Fixed Investment Growth (GFIG) rate by +10% / -10% in each of the base, upside and downside scenarios would result respectively in an ECL reduction by AED 49.17 million and an ECL increase AED 49.87 million. These changes are applied simultaneously to each probability weighted scenarios used to compute the expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2018			
	ECL staging			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Cash and balances with Central Bank	**20,147,826**	**-**	**-**	**20,147,826**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**20,147,826**	**-**	**-**	**20,147,826**
Deposits and balances due from banks				
Investment-grade	**7,946,529**	**1,300**	**-**	**7,947,829**
BB+ & below	**5,827,668**	**74,201**	**-**	**5,901,869**
Unrated	**8,510,198**	**680,594**	**35,427**	**9,226,219**
	22,284,395	**756,095**	**35,427**	**23,075,917**
Loss allowance	**(50,817)**	**(5,614)**	**(10,318)**	**(66,749)**
Carrying amount	**22,233,578**	**750,481**	**25,109**	**23,009,168**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2018			
	ECL staging			
Loans and advances -At amortised cost	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Grading 1	**5,467,110**	**401,992**	**-**	**5,869,102**
Grading 2	**37,647,001**	**1,126,750**	**-**	**38,773,751**
Grading 3	**5,622,020**	**885,777**	**-**	**6,507,797**
Grading 4	**3,828,351**	**2,247,452**	**-**	**6,075,803**
Grading 5	**-**	**-**	**2,607,470**	**2,607,470**
	52,564,482	**4,661,971**	**2,607,470**	**59,833,923**
Loss allowance	**(393,497)**	**(1,498,365)**	**(1,588,721)**	**(3,480,583)**
Carrying amount	**52,170,985**	**3,163,606**	**1,018,749**	**56,353,340**
Islamic financing and investment products measured at amortised cost				
Grading 1	**1,724,371**	**20,927**	**-**	**1,745,298**
Grading 2	**8,289,128**	**254,787**	**-**	**8,543,915**
Grading 3	**1,586,105**	**60,566**	**-**	**1,646,671**
Grading 4	**597,192**	**346,604**	**-**	**943,796**
Grading 5	**-**	**-**	**175,631**	**175,631**
	12,196,796	**682,884**	**175,631**	**13,055,311**
Loss allowance	**(51,293)**	**(19,235)**	**(68,528)**	**(139,056)**
Carrying amount	**12,145,503**	**663,649**	**107,103**	**12,916,255**

43 Risk management (continued)

Credit risk management (continued)

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

	2018			
	ECL staging			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	**8,020,164**	**-**	**-**	**8,020,164**
BB+ & below	**3,646,757**	**-**	**-**	**3,646,757**
Unrated	**70,642**	**-**	**-**	**70,642**
	11,737,563	**-**	**-**	**11,737,563**
Loss allowance	**(56,329)**	**-**	**-**	**(56,329)**
Carrying amount	**11,681,234**	**-**	**-**	**11,681,234**
Other financial assets measured at FVTOCI				
Investment-grade	**204,952**	-	-	**204,952**
BB+ & below	**67,640**	-	-	**67,640**
Unrated	**23,568**	-	-	**23,568**
	296,160	-	-	**296,160**
Loss allowance	**-**	-	-	**-**
Carrying amount	**296,160**	-	-	**296,160**

43 Risk management (continued)

Credit risk management (continued)

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

	2018			
	ECL staging			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other assets and acceptance	**9,731,526**	**854,120**	**389,262**	**10,974,908**
Loss allowance	**-**	**(158,838)**	**(365,443)**	**(524,281)**
Carrying Amount	**9,731,526**	**695,282**	**23,819**	**10,450,627**
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of credit	**7,684,607**	**366,906**	**-**	**8,051,513**
Guarantees	**39,477,307**	**3,969,201**	**-**	**43,446,508**
Undrawn credit commitments – Irrevocable	**4,244,289**	**13,182**	**-**	**4,257,471**
	51,406,203	**4,349,289**	**-**	**55,755,492**
Loss allowance	**(85,937)**	**(64,851)**	**-**	**(150,788)**

43 Risk management (continued)

Credit risk management (continued)

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

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

	2018 AED'000
Trading assets	
- Debt securities	**283,013**
- Derivatives	**535,876**
Hedging derivatives	**21,414**
	840,303

Collateral and other credit enhancements

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

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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 2018 AED'000	31 December 2017 AED'000	**31 December 2018 AED'000**	31 December 2017 AED'000
Against individually impaired loans and advances:				
Properties	**1,242,164**	223,556	**-**	-
Cash	**13,275**	1,520	**-**	-
Others	**72,400**	70,000	**-**	-
	1,327,839	295,076	-	-
Against loans and advances not impaired:				
Properties	**20,242,150**	16,284,824	**-**	-
Equities	**1,881,590**	1,912,775	**-**	-
Cash	**12,472,999**	7,363,648	**597,389**	397,964
Others	**6,967,793**	7,606,705	**-**	-
	41,564,532	33,167,952	**597,389**	397,964
Total	**42,892,371**	33,463,028	**597,389**	397,964

43 Risk management (continued)

Credit risk management (continued)

Loss allowance

The following table explain the changes in the loss allowance from 1 January 2018 to 31 December 2018:

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Deposits and balances due from banks				
Loss allowance as at 1 January 2018	**67,906**	**10,852**	**-**	**78,758**
Transfers				
Transfer from Stage 1 to Stage 2	**(123)**	**123**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(10,746)**	**-**	**10,746**	**-**
Transfer from Stage 2 to Stage 1	**10,180**	**(10,180)**	**-**	**-**
New financial assets originated	**57,610**	**5,560**	**-**	**63,170**
Changes in PDs/LGDs/EADs	**(74,010)**	**(741)**	**-**	**(74,751)**
Write-offs	**-**	**-**	**(428)**	**(428)**
Loss allowance as at 31 December 2018	**50,817**	**5,614**	**10,318**	**66,749**

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances measured at amortised cost				
Loss allowance as at 1 January 2018	**400,145**	**2,268,058**	**1,308,733**	**3,976,936**
Transfers				
Transfer from Stage 1 to Stage 2	**(38,929)**	**38,929**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(17,771)**	**-**	**17,771**	**-**
Transfer from Stage 2 to Stage 1	**15,587**	**(15,587)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(455,806)**	**455,806**	**-**
Transfer from Stage 3 to Stage 2	**-**	**1,047**	**(1,047)**	**-**
New financial assets originated	**210,928**	**78,738**	**-**	**289,666**
Changes in PDs/LGDs/EADs	**(176,463)**	**(417,014)**	**1,257,563**	**664,086**
Write-offs	**-**	**-**	**(1,450,105)**	**(1,450,105)**
Loss allowance as at 31 December 2018	**393,497**	**1,498,365**	**1,588,721**	**3,480,583**

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investment products measured at amortised cost				
Loss allowance as at 1 January 2018	**35,820**	**10,757**	**92,427**	**139,004**
Transfers				
Transfer from Stage 1 to Stage 2	**(2,033)**	**2,033**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(504)**	**-**	**504**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(1,045)**	**1,045**	**-**
Transfer from Stage 3 to Stage 2	**-**	**(437)**	**437**	**-**
New financial assets originated	**22,207**	**3,476**	**-**	**25,683**
Changes in PDs/LGDs/EADs	**(4,197)**	**4,451**	**96,727**	**96,981**
Write-offs	**-**	**-**	**(122,612)**	**(122,612)**
Loss allowance as at 31 December 2018	**51,293**	**19,235**	**68,528**	**139,056**

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Loss allowance as at 1 January 2018	**20,254**	**-**	**-**	**20,254**
New financial assets originated	**39,030**	**-**	**-**	**39,030**
Changes in PDs/LGDs/EADs	**(2,955)**	**-**	**-**	**(2,955)**
Loss allowance as at 31 December 2018	**56,329**	**-**	**-**	**56,329**
Other assets and acceptance				
Loss allowance as at 1 January 2018	**-**	**113,427**	**374,841**	**488,268**
New financial assets originated	**-**	**369**	**-**	**369**
Changes in PDs/LGDs/EADs	**-**	**45,042**	**(9,398)**	**35,644**
Loss allowance as at 31 December 2018	**-**	**158,838**	**365,443**	**524,281**

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Off-balance sheet items				
Loss allowance as at 1 January 2018	**71,927**	**148,783**	**-**	**220,710**
Transfers	**-**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 2	**(3,088)**	**3,088**	**-**	**-**
Transfer from Stage 2 to Stage 1	**41,739**	**(41,739)**	**-**	**-**
New financial assets originated	**43,362**	**8,651**	**-**	**52,013**
Changes in PDs/LGDs/EADs	**(68,902)**	**(53,932)**	**-**	**(122,834)**
Changes to model assumptions and methodologies	**899**	**-**	**-**	**899**
Loss allowance as at 31 December 2018	**85,937**	**64,851**	**-**	**150,788**

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2018:

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Cash and balances with central banks				
Gross carrying amount as at 1 January 2018	**16,899,076**	**-**	**-**	**16,899,076**
New financial assets originated	**3,248,750**	**-**	**-**	**3,248,750**
Gross carrying amount as at 31 December 2018	**20,147,826**	**-**	**-**	**20,147,826**
Deposits and balances due from banks				
Gross carrying amount as at 1 January 2018	**19,872,129**	**263,298**	**-**	**20,135,427**
Transfers				
Transfer from Stage 1 to Stage 2	**(26,262)**	**26,262**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(33,484)**	**-**	**33,484**	**-**
Transfer from Stage 2 to Stage 1	**99,563**	**(99,563)**	**-**	**-**
New financial assets originated	**21,924,998**	**835,515**	**-**	**22,760,513**
Repayments during the year	**(19,552,549)**	**(269,417)**	**-**	**(19,821,966)**
Other movements	**-**	**-**	**2,371**	**2,371**
Write-offs	**-**	**-**	**(428)**	**(428)**
Gross carrying amount as at 31 December 2018	**22,284,395**	**756,095**	**35,427**	**23,075,917**

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Other financial assets measured at amortised cost				
Gross carrying amount as at 1 January 2018	**12,583,404**	**-**	**-**	**12,583,404**
New financial assets originated	**4,055,729**	**-**	**-**	**4,055,729**
Repayments during the year	**(4,901,570)**	**-**	**-**	**(4,901,570)**
Gross carrying amount as at 31 December 2018	**11,737,563**	**-**	**-**	**11,737,563**

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL AED'000	Lifetime ECL AED'000	Lifetime ECL AED'000	Total AED'000
Loans and advances measured at amortised cost				
Gross carrying amount as at 1 January 2018	44,766,212	9,752,218	1,944,940	56,463,370
Transfers				
Transfer from Stage 1 to Stage 2	(3,084,084)	3,084,084	-	-
Transfer from Stage 1 to Stage 3	(987,703)	-	987,703	-
Transfer from Stage 2 to Stage 3	-	(927,878)	927,878	-
Transfer from Stage 3 to Stage 2	-	3,666	(3,666)	-
Transfer from Stage 2 to Stage 1	894,378	(894,378)	-	-
New financial assets originated	27,866,464	1,165,462	-	29,031,926
Repayments during the year	(16,890,785)	(7,521,203)	-	(24,411,988)
Other movements	-	-	200,720	200,720
Write-offs	-	-	(1,450,105)	(1,450,105)
Gross carrying amount as at 31 December 2018	52,564,482	4,661,971	2,607,470	59,833,923
Islamic financing and other investments measured at amortised cost				
Gross carrying amount as at 1 January 2018	8,804,299	370,873	281,422	9,456,594
Transfers				
Transfer from Stage 1 to Stage 2	(581,631)	581,631	-	-
Transfer from Stage 1 to Stage 3	(15,872)	-	15,872	-
Transfer from Stage 2 to Stage 3	-	(8,675)	8,675	-
Transfer from Stage 3 to Stage 2	-	8,087	(8,087)	-
New financial assets originated	8,572,149	298,869	-	8,871,018
Repayments during the year	(4,582,149)	(567,901)	-	(5,150,050)
Other movements	-	-	361	361
Write-offs	-	-	(122,612)	(122,612)
Gross carrying amount as at 31 December 2018	12,196,796	682,884	175,631	13,055,311

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL AED'000	**Lifetime ECL AED'000**	**Lifetime ECL AED'000**	**Total AED'000**
Other asset and acceptances				
Gross carrying amount as at 1 January 2018	**5,961,270**	**1,908,749**	**489,410**	**8,359,429**
New financial assets originated	**11,558,913**	**48,560**	**-**	**11,607,473**
Repayments during the year	**(7,788,657)**	**(1,103,189)**	**(100,148)**	**(8,991,994)**
Gross carrying amount as at 31 December 2018	**9,731,526**	**854,120**	**389,262**	**10,974,908**
Off-balance sheet items				
Gross carrying amount as at 1 January 2018	**46,527,745**	**6,550,867**	**-**	**53,078,612**
Transfers				
Transfer from Stage 1 to Stage 2	**(972,787)**	**972,787**	**-**	**-**
Transfer from Stage 2 to Stage 1	**1,156,108**	**(1,156,108)**	**-**	**-**
New financial assets originated	**15,294,210**	**357,262**	**-**	**15,651,472**
Repayments during the year	**(10,599,073)**	**(2,375,519)**	**-**	**(12,974,592)**
Gross carrying amount as at 31 December 2018	**51,406,203**	**4,349,289**	**-**	**55,755,492**

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Notes to the consolidated financial statements for the year ended 31 December 2018 (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.

	2017			
	Due from banks AED'000	Loans and advances AED'000	Islamic financing and investments AED'000	Other financial assets measured at amortised cost AED'000
Impaired				
Non-Accrual Under Restructuring	-	74,429	124,618	-
Substandard	-	442,600	88,866	-
Doubtful	-	316,684	43,330	-
Loss	-	1,111,227	24,608	-
Gross amount	-	1,944,940	281,422	-
Interest/profit suspended	-	(285,112)	(10,341)	-
Specific allowance for impairment	-	(983,621)	(82,086)	-
	-	676,207	188,995	-
Past due but not impaired				
Past due by less than 90 days*	-	495,326	17,045	-
Past due beyond 90 days**	-	495,109	-	-
Past due retail loans beyond 30 days	-	339,631	36,157	-
	-	1,330,066	53,202	-
Neither past due nor impaired				
Gross amount	20,135,427	53,188,364	9,121,970	12,583,404
Collective allowance for impairment	-	(1,800,472)	(24,700)	-
	20,135,427	51,387,892	9,097,270	12,583,404
Carrying amount	20,135,427	53,394,165	9,339,467	12,583,404

43 Risk management (continued)

Credit risk management (continued)

* 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.

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products measured at amortised costs that were neither past due nor impaired as at 31 December 2017 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

	2017	
	Loans and advances measured at amortised cost AED'000	Islamic financing and investment products measured at amortised cost AED'000
Grades		
Grade 1 – Low risk	3,127,742	460,163
Grade 2 – Satisfactory risk	40,421,167	7,545,318
Grade 3 – Fair Risk	3,758,253	553,817
Grade 4 – Watch List	5,881,202	562,672
	53,188,364	9,121,970

43 Risk management (continued)

Credit risk management (continued)

Write-off policy

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

43 Risk management (continued)

Credit risk management (continued)

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more. The gross carrying amounts of modified financial assets held at 31 December 2018 and 2017 was not material.

Geographical concentration

The distributions by geographical concentration of loans and advances measured at amortised cost for stage 3 and impairment allowance for credit losses are as follows:

	UAE AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Others AED'000	Total AED'000
31 December 2018					
Stage 3	**1,392,264**	**841,027**	**168**	**374,011**	**2,607,470**
Impairment allowance for credit losses inclusive of interest in suspense	**(733,590)**	**(806,450)**	**(168)**	**(48,513)**	**(1,588,721)**
	658,674	**34,577**	**-**	**325,498**	**1,018,749**
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

43 Risk management (continued)

Credit risk management (continued)

Geographical concentration

The distributions by geographical concentration of Islamic financing and investment products measured at amortised cost for stage 3 and impairment allowance for credit losses are as follows:

	UAE. AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Others AED'000	Total AED'000
31 December 2018					
Stage 3	**175,631**	**-**	**-**	**-**	**175,631**
Impairment allowance for credit losses inclusive of profit in suspense	**(68,528)**	**-**	**-**	**-**	**(68,528)**
	107,103	**-**	**-**	**-**	**107,103**
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

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.

43 Risk management (continued)

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 any risk taking business. The Market Risk function folds under Risk Management and reports to the Chief Risk Officer of the Group.

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

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

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

43 Risk management (continued)

Market risk management (continued)

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

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

In year 2018, VaR was calculated regularly and as of 31 December 2018 the 99% 1-day VaR was estimated at USD 13.99 million for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

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

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 2018 would have been an decrease in profit by -3.01% (in case of decrease of interest rates) and would have been an increase in profit by +3.04% (in case of increase of interest rates) [31 December 2017: -4.29%and +4.41%] respectively.

During the year ended 31 December 2018, the effective interest rate on due from banks and certificates of deposits with central banks was 2.13% (31 December 2017: 1.67%), on loans and advances measured at amortised cost 5.80% (31 December 2017: 5.50%), on customers' deposits 1.73% (31 December 2017: 1.12%) and on due to banks (including repurchase agreements) 2.19% (31 December 2017: 1.27%).

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

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2018							
Assets							
Cash and balances with central banks	9,507,378	-	-	-	-	10,640,448	20,147,826
Deposits and balances due from banks	13,333,474	5,175,117	1,022,504	477,817	-	3,000,256	23,009,168
Other financial assets measured at fair value	65,315	109,526	54,165	78,544	250,602	1,179,607	1,737,759
Other financial assets measured at amortised cost	1,852,407	571,952	1,251,847	5,179,061	2,825,967	-	11,681,234
Loans and advances measured at amortised cost	43,823,855	2,471,671	1,705,713	3,660,845	3,708,503	982,753	56,353,340
Islamic financing and investment products measured at amortised cost	11,412,427	133,400	156,306	621,486	297,469	295,167	12,916,255
Other assets	-	-	-	-	-	2,332,423	2,332,423
Acceptances	-	-	-	-	-	9,782,129	9,782,129
Investment properties	-	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	-	1,481,588	1,481,588
Total assets	79,994,856	8,461,666	4,190,535	10,017,753	7,082,541	30,184,256	139,931,607

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2018	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	**4,279,247**	**1,314,878**	**304,640**	**-**	**2,339**	**3,158,859**	**9,059,963**
Repurchase agreements with banks	**2,116,677**	**-**	**-**	**-**	**-**	**-**	**2,116,677**
Customers' deposits	**23,755,184**	**8,069,530**	**8,297,753**	**2,941,464**	**531,756**	**28,926,169**	**72,521,856**
Islamic customers' deposits	**2,907,440**	**520,324**	**1,490,878**	**1,411,289**	**16,700**	**4,350,076**	**10,696,707**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**5,266,894**	**5,266,894**
Acceptances	**-**	**-**	**-**	**-**	**-**	**9,782,129**	**9,782,129**
Medium-term loans	**1,668,604**	**2,763,013**	**1,666,941**	**1,900,233**	**-**	**186,599**	**8,185,390**
Insurance and life assurance funds	**-**	**-**	**-**	**-**	**-**	**1,536,302**	**1,536,302**
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	**-**	**-**	**20,144,104**	**20,144,104**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**621,585**	**621,585**
Total liabilities and equity	**34,727,152**	**12,667,745**	**11,760,212**	**6,252,986**	**550,795**	**73,972,717**	**139,931,607**
On balance sheet gap	**45,267,704**	**(4,206,079)**	**(7,569,677)**	**3,764,767**	**6,531,746**	**(43,788,461)**	**-**
Off balance sheet gap	**2,698,369**	**(2,691,147)**	**(85,342)**	**71,162**	**6,958**	**-**	**-**
Cumulative interest rate sensitivity gap	**47,966,073**	**41,068,847**	**33,413,828**	**37,249,757**	**43,788,461**	**-**	**-**

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

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	Non-interest bearing items AED'000	Total AED'000
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
Financial assets measured at fair value	250,076	174,063	13,588	-	-	1,142,818	1,580,545
Financial assets measured at amortised Cost	5,972,970	4,655,430	348,691	761,945	844,368	-	12,583,404
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 assets	-	-	-	-	-	3,015,667	3,015,667
Acceptances	-	-	-	-	-	6,379,818	6,379,818
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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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
Other liabilities	-	-	-	-	-	3,941,576	3,941,576
Acceptances	-	-	-	-	-	6,379,818	6,379,818
Medium-term loans	2,736,004	1,473,315	618,267	1,208,066	-	190,380	6,226,032
Insurance and life assurance funds	-	-	-	-	-	1,582,695	1,582,695
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	-	-

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 2018			31 December 2017		
	Net spot position AED'000	**Net Forward position AED'000**	**Net Position AED'000**	Net spot position AED'000	Net Forward position AED'000	Net Position AED'000
U.S. Dollars	**9,228,977**	**(7,694,809)**	**1,534,168**	9,862,269	(5,852,816)	4,009,453
Qatari Riyals	**1,371,169**	**230,090**	**1,601,259**	1,999,936	110,505	2,110,441
Pound Sterling	**(484,676)**	**516,253**	**31,577**	(692,701)	723,001	30,300
Euro	**(1,965,996)**	**1,717,182**	**(248,814)**	(2,470,578)	1,773,735	(696,843)
Bahrain Dinar	**1,522**	**(3,223)**	**(1,701)**	72,490	(10,609)	61,881
Saudi Riyal	**(3,565,828)**	**3,568,814**	**2,986**	(1,464,959)	1,460,716	(4,243)
Japanese Yen	**(806,483)**	**822,812**	**16,329**	(694,888)	704,456	9,568
Swiss Francs	**(183,715)**	**186,616**	**2,901**	(207,102)	207,511	409
Kuwaiti Dinar	**221,211**	**(156,394)**	**64,817**	209,277	(161,225)	48,052
Chinese Yuan	**(324,377)**	**324,544**	**167**	(259,001)	260,289	1,288
Other	**640,173**	**75,968**	**716,141**	486,075	(7,603)	478,472
Total	**4,131,977**	**(412,147)**	**3,719,830**	6,840,818	(792,040)	6,048,778

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

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

Liquidity risk management

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

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. ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCOs meets on a monthly basis or more often 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. ALCOs determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations

The Treasury function in the Group is then responsible for implementing the ALCO policies. In this regard, the following policies, procedures and systems have been implemented:

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

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.

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

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

43 Risk management (continued)

Liquidity risk management (continued)

c) Gap limits on the Bank's Money market assets

The minimum size of net placements in highly liquid money market instruments is decided by ALCO based on factors including size of the balance sheet, asset growth plans and liquidity outlook.

The Money Book deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet a range of liquidity needs, including longer term structural, short term and intraday.

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

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

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2018 has an outstanding balance of AED 8.18 billion (31 December 2017: AED 6.23 billion) [Note 19] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014 and Hong Kong Branch in 2018.

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

Stress tests enable the bank to analyze the impact of stress scenarios on its consolidated group-wide liquidity position as well as on the liquidity position of its overseas operations and business lines. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the bank is exposed. ALCO reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

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

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO on an annual basis.

43 Risk management (continued)

Liquidity risk management (continued)

g) FTP Frame work for allocating liquidity costs, benefits and risks to all business activities

Mashreq has a well-developed FTP policy and system that aims to create transparency in profitability and insulate BUs from market risk.

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

Mashreq liquidity policies, procedures and systems are subject to end to end review both internally by the internal audit as well as by the CBUAE.

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.

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. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2018 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	20,147,826	-	-	-	-	20,147,826
Deposits and balances due from banks	14,912,292	5,239,501	2,059,706	797,669	-	23,009,168
Other financial assets measured at fair value	367,643	116,785	102,002	95,185	1,056,144	1,737,759
Other financial assets measured at amortised cost	2,026,547	386,165	1,251,844	5,263,867	2,752,811	11,681,234
Loans and advances measured at amortised cost	17,585,237	4,315,906	3,594,079	16,364,654	14,493,464	56,353,340
Islamic financing and investment products measured at amortised cost	5,543,099	929,349	230,414	2,929,115	3,284,278	12,916,255
Other assets	1,373,658	326,714	167,675	401,410	62,966	2,332,423
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Investment properties	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	1,481,588	1,481,588
Total assets	64,309,679	14,907,088	11,241,111	25,852,593	23,621,136	139,931,607

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	6,839,041	1,425,068	304,640	488,875	2,339	9,059,963
Repurchase agreements with banks	2,116,677	-	-	-	-	2,116,677
Customers' deposits	52,818,602	8,050,106	8,308,524	2,812,868	531,756	72,521,856
Islamic customers' deposits	7,204,078	520,324	1,544,316	1,411,289	16,700	10,696,707
Other liabilities	3,848,388	525,063	498,398	340,226	54,819	5,266,894
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Medium-term loans	1,668,604	2,763,013	1,853,540	1,900,233	-	8,185,390
Insurance and life assurance funds	-	-	1,043,087	493,215	-	1,536,302
Equity attributable to shareholders of the Parent	-	-	-	-	20,144,104	20,144,104
Non-controlling interest	-	-	-	-	621,585	621,585
Total liabilities and equity	76,848,767	16,876,242	17,387,896	7,447,399	21,371,303	139,931,607

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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
Financial assets measured at fair value	933,436	104,373	1,204	107,836	433,696	1,580,545
Financial assets measured at amortised cost	1,865,093	742,134	593,922	4,905,471	4,476,784	12,583,404
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 assets	1,914,535	869,328	86,485	111,735	33,584	3,015,667
Acceptances	2,381,259	2,053,413	1,945,146	-	-	6,379,818
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

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
Other liabilities	2,828,434	304,448	315,976	249,886	242,832	3,941,576
Acceptances	2,381,259	2,053,413	1,945,146			6,379,818
Medium-term loans	2,736,004	1,473,315	808,647	1,208,066	-	6,226,032
Insurance and life assurance funds	-	-	1,078,357	504,338	-	1,582,695
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

43 Risk management (continued)

Insurance Risk

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

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

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

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

Frequency and Severity of Claims

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

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 10% in claims will result in corresponding increase/ decrease in net claims incurred by AED 110 million (2017: AED 102 million).

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 2017.

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

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

43. Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2018		2017				
	AED'000		AED'000				
Other financial assets measured at FVTPL							
Quoted debt investments	**20,724**		119,098	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**10,752**		3,548	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**207,194**		258,793	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Unquoted debt investments	**55,095**		59,836	Level 3	Based on discounted cash flow model	Interest rate	Change in interest rate will impact the value of the bond.
Mutual and other funds	**597,921**		523,527	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**220**		222	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.
	891,906		965,024				

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Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	2018	2017				
	AED'000	AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	**356,824**	355,635	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted debt investments	**296,160**	-	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**192,869**	259,886	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	845,853	615,521				
	1,737,759	1,580,545				

43. Risk management (continued)

Fair value measurements (continued)

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

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

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

	2018	2017
	AED'000	AED'000
At 1 January	**60,058**	23,261
Purchases	**-**	129,617
Disposals/matured	**-**	(134,038)
Change in fair value	**(4,743)**	41,218
At 31 December	**55,315**	60,058

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

	2018	2017
	AED'000	AED'000
At 1 January	**259,886**	348,294
Purchases	**-**	-
Disposals/matured	**(7,569)**	(153,675)
Change in fair value	**(59,448)**	65,267
At 31 December	**192,869**	259,886

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

43. Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

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

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018					
Financial assets:					
Other financial assets measured at amortised cost	**11,681,234**	**7,436,644**	**2,486,579**	**1,581,627**	**11,504,850**
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

	Carrying Amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018					
Financial liabilities					
Medium-term notes	**8,185,390**	**6,960,601**	**-**	**1,226,329**	**8,186,930**
31 December 2017					
Financial liabilities					
Medium-term notes	6,226,032	4,904,034	-	1,314,700	6,218,734

43. Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2018 and 31 December 2017:

	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 2018				
Other financial assets measured at fair value	**8,919**	**(8,919)**	**8,459**	**(8,459)**
31 December 2017				
Other financial assets measured at fair value	9,650	(9,650)	6,155	(6,155)

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 Foreign restricted assets

Net assets equivalent to AED 113 million as at 31 December 2018 (31 December 2017: AED 113 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2018.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 were approved by the Board of Directors and authorised for issue on 21 January 2019.