Mashreqbank PSC Group

Condensed consolidated interim financial information for the period from 1 January 2019 to 30 June 2019

Mashreqbank PSC Group

Review report and condensed consolidated interim financial information for the period from 1 January 2019 to 30 June 2019

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income for the three-month and six-month periods then ended, and the condensed consolidated statements of changes in equity and cash flows for the six-month period then ended and other explanatory information. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
21 July 2019

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Condensed consolidated statement of financial position as at 30 June 2019

	Notes	30 June 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
ASSETS			
Cash and balances with central banks		**14,901,058**	20,147,826
Deposits and balances due from banks		**22,201,767**	23,009,168
Other financial assets measured at fair value	6	**2,795,188**	1,737,759
Other financial assets measured at amortised cost	6	**11,598,618**	11,681,234
Investment in associate		**29,355**	-
Loans and advances measured at amortised cost	7	**56,516,643**	56,353,340
Islamic financing and investment products measured at amortised cost	8	**14,207,392**	12,916,255
Acceptances		**9,312,651**	9,782,129
Other assets		**2,662,990**	2,332,423
Investment properties	9	**489,885**	489,885
Property and equipment	10	**1,712,462**	1,481,588
Total assets		**136,428,009**	139,931,607
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	**9,408,126**	9,059,963
Repurchase agreements with banks		**581,603**	2,116,677
Customers' deposits	12	**69,747,096**	72,521,856
Islamic customers' deposits	13	**7,862,570**	10,696,707
Acceptances		**9,312,651**	9,782,129
Other liabilities		**5,443,935**	5,266,894
Medium-term notes	14	**10,879,048**	8,185,390
Insurance and life assurance funds		**1,796,507**	1,536,302
Total liabilities		**115,031,536**	119,165,918
EQUITY			
Capital and reserves			
Issued and paid up capital	15	**1,775,308**	1,775,308
Statutory and legal reserves		**907,714**	903,877
General reserve		**312,000**	312,000
Currency translation reserve		**(80,419)**	(81,380)
Investments revaluation reserve		**(261,009)**	(242,733)
Cash flow hedge reserve		**4,344**	(4,124)
Retained earnings		**18,060,145**	17,481,156
Equity attributable to owners of the Parent		**20,718,083**	20,144,104
Non-controlling interests	16	**678,390**	621,585
Total equity		**21,396,473**	20,765,689
Total liabilities and equity		**136,428,009**	139,931,607

Abdulla Bin Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of profit or loss for the period from 1 January 2019 to 30 June 2019 (un-audited)

	Notes	For the three month period ended 30 June		For the six month period ended 30 June	
		2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Interest income		**1,456,255**	1,353,276	**2,958,192**	2,581,002
Income from Islamic financing and investment products		**191,451**	130,521	**375,747**	244,474
Total interest income and income from Islamic financing and investment products		**1,647,706**	1,483,797	**3,333,939**	2,825,476
Interest expense		**(659,996)**	(477,565)	**(1,329,021)**	(863,049)
Distribution to depositors – Islamic products		**(74,214)**	(61,336)	**(155,280)**	(108,394)
Net interest income and net income from Islamic products		**913,496**	944,896	**1,849,638**	1,854,033
Fee and commission income		**723,143**	743,151	**1,454,275**	1,455,742
Fee and commission expense		**(374,004)**	(360,308)	**(744,273)**	(716,369)
Net fee and commission income		**349,139**	382,843	**710,002**	739,373
Net investment income		**6,677**	5,050	**54,492**	18,363
Other income, net		**235,228**	253,668	**459,813**	492,502
Operating income		**1,504,540**	1,586,457	**3,073,945**	3,104,271
General and administrative expenses	17	**(665,011)**	(717,633)	**(1,316,321)**	(1,309,976)
Allowances for impairment, net		**(220,608)**	(287,018)	**(481,719)**	(589,079)
Profit before tax		**618,921**	581,806	**1,275,905**	1,205,216
Tax expense		**(5,914)**	(7,222)	**(13,702)**	(21,458)
Profit for the period		**613,007**	574,584	**1,262,203**	1,183,758
Attributed to:					
Owners of the Parent		**593,477**	563,216	**1,221,637**	1,161,382
Non-controlling interests		**19,530**	11,368	**40,566**	22,376
		613,007	574,584	**1,262,203**	1,183,758
Earnings per share (AED)	18	**3.34**	3.17	**6.88**	6.54

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of other comprehensive income for the period from 1 January 2019 to 30 June 2019 (un-audited)

	For the three month period ended 30 June		For the six month period ended 30 June	
	2019	2018	2019	2018
	AED '000	AED '000	AED '000	AED '000
Profit for the period	**613,007**	574,584	**1,262,203**	1,183,758
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (equity instruments)	**38,650**	(24,365)	**68,537**	(7,480)
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	**780**	(11,124)	**(15)**	(15,622)
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (debt instruments)	**3,238**	4,413	**7,700**	4,413
Cash flow hedges - fair value gain arising during the period	**14,027**	-	**8,468**	-
Total other comprehensive income for the period	**56,695**	(31,076)	**84,690**	(18,689)
Total comprehensive income for the period	**669,702**	543,508	**1,346,893**	1,165,069
Attributed to:				
Owners of the Parent	**637,694**	539,831	**1,290,039**	1,151,630
Non-controlling interests	**32,008**	3,677	**56,854**	13,439
	669,702	543,508	**1,346,893**	1,165,069

Mashreqbank PSC Group

Condensed consolidated statement of changes in equity for the period from 1 January 2018 to 30 June 2018 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	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 2018	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	-	-	-	-	-	(1,392,640)	(1,392,640)	(80,819)	(1,473,459)
Restated balance at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	16,226,029	18,970,806	682,155	19,652,961
Profit for the period	-	-	-	-	-	1,161,382	1,161,382	22,376	1,183,758
Other comprehensive income / (loss)				(11,437)	1,685	-	(9,752)	(8,937)	(18,689)
Total comprehensive (loss) / income for the period	-	-	-	(11,437)	1,685	1,161,382	1,151,630	13,439	1,165,069
Payment of dividends (Note 15 and 16)	-	-	-	-	-	(710,123)	(710,123)	(16,655)	(726,778)
Transfer to statutory and legal reserves	-	2,256	-	-	-	(2,256)	-	-	-
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	6,734	(6,734)	-	-	-
Balance at 30 June 2018	1,775,308	903,877	312,000	(70,600)	(176,570)	16,668,298	19,412,313	678,939	20,091,252

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity for the period from 1 January 2019 to 30 June 2019 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019	**1,775,308**	**903,877**	**312,000**	**(81,380)**	**(242,733)**	**(4,124)**	**17,481,156**	**20,144,104**	**621,585**	**20,765,689**
Changes on initial application of IFRS 16 (Note 3.9)	**-**	**-**	**-**	**-**	**-**	**-**	**(5,937)**	**(5,937)**	**(49)**	**(5,986)**
Restated balance at 1 January 2019	**1,775,308**	**903,877**	**312,000**	**(81,380)**	**(242,733)**	**(4,124)**	**17,475,219**	**20,138,167**	**621,536**	**20,759,703**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,221,637**	**1,221,637**	**40,566**	**1,262,203**
Other comprehensive income	**-**	**-**	**-**	**961**	**58,973**	**8,468**	**-**	**68,402**	**16,288**	**84,690**
Total comprehensive income for the period	**-**	**-**	**-**	**961**	**58,973**	**8,468**	**1,221,637**	**1,290,039**	**56,854**	**1,346,893**
Payment of dividends (Note 15 and 16)	**-**	**-**	**-**	**-**	**-**	**-**	**(710,123)**	**(710,123)**	**-**	**(710,123)**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**(77,249)**	**-**	**77,249**	**-**	**-**	
Transfer to statutory and legal reserves	**-**	**3,837**	**-**	**-**	**-**	**-**	**(3,837)**	**-**	**-**	**-**
Balance at 30 June 2019	**1,775,308**	**907,714**	**312,000**	**(80,419)**	**(261,009)**	**4,344**	**18,060,145**	**20,718,083**	**678,390**	**21,396,473**

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019 (un-audited)

	For the six month period ended 30 June	
	2019	2018
	AED ’000	AED ’000
Cash flows from operating activities		
Profit before taxation for the period	**1,275,905**	1,205,216
Adjustments for:		
Depreciation of property and equipment	**108,732**	74,818
Allowance for impairment, net	**481,719**	589,079
Loss on disposal of property and equipment	**3,748**	2,431
Unrealised loss on other financial assets held at Fair Value Through Profit or Loss (FVTPL)	**21,419**	2,609
Unrealised loss on derivatives	**1,097**	3,330
Dividend income from financial assets measured at FVTOCI	**(20,076)**	(13,657)
Realised gain on disposal of other financial assets	**(55,199)**	-
Changes in operating assets and liabilities		
(Increase) / decrease in deposits with central banks	**(2,739,184)**	1,328,864
Decrease / (increase) in deposits and balances due from banks maturing after three months	**1,893,986**	(25,995)
Increase in other financial assets measured at FVTPL	**(642,753)**	(144,659)
Increase in loans and advances measured at amortised cost	**(591,676)**	(5,062,244)
Increase in Islamic financing and investment products measured at amortised cost	**(1,323,666)**	(1,418,231)
Decrease / (increase) in other assets	**122,640**	(780,421)
(Decrease) / increase in deposits and balances due to banks	**(632,972)**	1,315,771
(Decrease) / increase in customers’ deposits	**(2,774,760)**	372,697
(Decrease) / increase in Islamic customers’ deposits	**(2,834,137)**	1,357,290
Increase in insurance and life assurance funds	**260,206**	191,812
(Decrease) / increase in other liabilities	**(303,733)**	1,512,431
(Decrease) in repurchase agreements with banks	**(858,409)**	-
Taxes paid	**(13,702)**	(21,458)
Net cash (used in) / generated from operating activities	**(8,620,815)**	489,683
Cash flows from investing activities		
Purchase of property and equipment	**(193,060)**	(87,858)
Proceeds from sale of property and equipment	**-**	1,738
Net increase in non-trading investments	**(367,335)**	(403,616)
Dividend income received from other financial assets measured at FVTOCI	**20,076**	13,657
Net cash used in investing activities	**(540,319)**	(476,079)

Condensed consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019 (un-audited) (continued)

	For the six month period ended 30 June	
	2019	2018
	AED '000	AED '000
Cash flows from financing activities		
Dividends paid	**(710,123)**	(726,778)
Medium term notes issued during the period	**7,067,915**	5,007,602
Medium term notes redeemed during the period	**(4,388,883)**	(4,209,320)
Net cash generated from financing activities	**1,968,909**	71,504
Net (decrease) / increase in cash and cash equivalents	**(7,192,225)**	85,108
Net foreign exchange difference	**961**	(11,437)
Cash and cash equivalents at beginning of the period (Note 19)	**20,707,074**	21,155,837
Cash and cash equivalents at end of the period (Note 19)	**13,515,810**	21,229,508

Notes to the condensed consolidated interim financial information for the period from 1 January 2019 to 30 June 2019

1 General information

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

At 30 June 2019, Mashreqbank PSC Group (the "Group") comprises of the Bank and the following direct subsidiaries and associates:

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

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in this interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

- **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.

  The impact of the IFRS 16 on the condensed consolidated interim financial information of the Group is disclosed in note 3.9.

- **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.

- **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

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

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

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 17, 'Insurance contracts'** - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 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.	1 January 2022
• **Amendments to IFRS 3 -** This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.	1 January 2020
• **Amendments to IAS 1 and IAS 8 -** These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	1 January 2020

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

3 Summary of significant accounting policies

3.1 Basis of preparation

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

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

The accounting policies used in the preparation of this condensed consolidated interim financial information is consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2018, other than the impact of the implementation of IFRS 16 which is disclosed in note 3.9.

This condensed consolidated interim financial information does not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2018. In addition, results for the period from 1 January 2019 to 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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

3.2 Basis of consolidation

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets

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

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

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

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

Classification of financial assets

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

(a) Equity instruments:

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

(a) Equity instruments (continued)

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

Amortised cost and effective interest method

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

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

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

(ii) Modification of loans

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(ii) Modification of loans (continued)

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

(iii) Derecognition other than on a modification

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

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

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

3.4 Financial liabilities

Classification and subsequent measurement

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

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

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

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

Derecognition

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

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

3.5 Financial guarantee contracts and loan commitments

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

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

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

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

3 Summary of significant accounting policies (continued)

3.6 Foreign exchange gains and losses

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

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

- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
-
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and

- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.7 Islamic financing and investment products

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

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

(i) Accounting policy

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

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

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

(ii) Revenue recognition policy

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

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products (continued)

(ii) Revenue recognition policy (continued)

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

(iii) Islamic customers' deposits and distributions to depositors

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

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

3.8 Investment properties

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

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

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

The valuation techniques and inputs used in determining the fair value of investment property is consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2018.

3 Summary of significant accounting policies (continued)

3.9 Leasing

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

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

Changes in accounting policies

The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases.

3 Summary of significant accounting policies (continued)

3.9 Leasing (continued)

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.3%.

The associated right-of-use assets for property leases were measured on a basis as if the new rules had always been applied. Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. As at 30 June 2019, right-of-use asset of AED 121 million has been included in property and equipment.

The net impact on retained earnings on 1 January 2019 was a decrease of AED 6 million.

3.10 Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018.

3.11 Cash and cash equivalents

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

4 Credit risk

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

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

4 Credit risk (continued)

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

	30 June 2019 (un-audited)			
Loan and advances (including Islamic financing and investment products measured at amortised cost)	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
	AED (in million)			
Gross carrying amount	66,702	4,759	3,296	74,757
Loss allowance	(428)	(1,715)	(1,890)	(4,033)
Carrying amount	**66,274**	**3,044**	**1,406**	**70,724**

	31 December 2018 (audited)			
Loan and advances (including Islamic financing and investment products measured at amortised cost)	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
	AED (in million)			
Gross carrying amount	64,761	5,345	2,783	72,889
Loss allowance	(445)	(1,518)	(1,657)	(3,620)
Carrying amount	**64,316**	**3,827**	**1,126**	**69,269**

During the period ended 30 June 2019, loans and advances and Islamic financing assets amounting to AED 1,060 million were transferred from stage 1 to stage 2, whereas AED 204 million were transferred from stage 2 to stage 1 and AED 442 million were transferred from stage 2 to stage 3. The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investment products measured at amortised cost have been disclosed in notes 7 and 8 respectively.

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

	30 June 2019 (un-audited)			
Off-balance sheet items	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
	AED (in million)			
Guarantees	41,569	3,872	-	45,441
Letters of credit	8,089	224	-	8,313
	49,658	**4,096**	**-**	**53,754**

4 Credit risk (continued)

	31 December 2018 (audited)			
	Stage 1	**Stage 2**	**Stage 3**	
Off-balance sheet items	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
		AED (in million)		
Guarantees	39,477	3,969	-	43,446
Letters of credit	7,685	367	-	8,052
	47,162	**4,336**	**-**	**51,498**

During the period ended 30 June 2019, off balance sheet exposures (LCs and LGs) amounting to AED 235 million were transferred from stage 1 to stage 2, whereas there were no transfers from stage 2 to stage 1. Total provision against off balance sheet exposures (LCs, LGs and commitment) amounted to AED 169 million as at 30 June 2019 (31 December 2018: AED 151 million).

4.3 As at 30 June 2019, other assets and acceptances include financial assets of AED 8,899 million which have been classified under stage 1, AED 1,288 million has been classified under stage 2 and AED 349 million has been classified under stage 3. There were no transfers between stages during the period ended 30 June 2019. Total provision under other assets amounts to AED 475 million as at 30 June 2019 (31 December 2018: AED 524 million).

4.4 As at 30 June 2019, the Group has recorded ECL of AED 80 million (31 December 2018: AED 67 million) in respect of deposits and balances due from banks and AED 43 million (31 December 2018: AED 56 million) in respect of other financial assets measured at amortised cost.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

6 Other financial assets

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	**845,098**	283,013
Equities	**15,863**	10,972
Mutual and other funds	**652,280**	597,921
	1,513,241	891,906
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**778,037**	296,160
Equities	**503,910**	549,693
	1,281,947	845,853
Total other financial assets measured at fair value (A)	**2,795,188**	1,737,759
(iii) Other financial assets measured at amortised cost		
Debt securities	**11,642,002**	11,737,563
Less: Allowance for impairment	**(43,384)**	(56,329)
Total other financial assets measured at amortised cost (B)	**11,598,618**	11,681,234
Total other financial assets [(A)+(B)]	**14,393,806**	13,418,993

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balances within the U.A.E.	**2,261,512**	2,149,263
Balances outside the U.A.E.	**12,175,678**	11,326,059
	14,437,190	13,475,322
Less: Allowance for impairment	**(43,384)**	(56,329)
	14,393,806	13,418,993

6 Other financial assets (continued)

(c) During the period from 1 January 2019 to 30 June 2019, dividends received from financial assets measured at FVTOCI amounting to AED 20 million (period ended 30 June 2018: AED 14 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(d) Other financial assets measured at FVTPL include AED 219 million (31 December 2018: AED 200 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and the fair value of these funds is based on the quoted market price.

(e) At 30 June 2019, certain financial assets measured at amortised cost included debt securities with an aggregate notional value of AED 584 million (fair value of AED 585 million) [31 December 2018: notional value of AED 1,721 million (fair value of AED 1,693 million)] which were collateralised as at that date against repurchase agreements with banks (“Repo”) of AED 582 million (31 December 2018: AED 1,503 million).

7 Loans and advances measured at amortised cost

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

	30 June 2019 (un-audited) AED’000	31 December 2018 (audited) AED’000
Loans	**52,446,206**	53,005,765
Overdrafts	**5,156,054**	3,942,492
Credit cards	**2,000,698**	2,247,672
Others	**792,152**	637,994
	60,395,110	59,833,923
Less: Allowance for impairment	**(3,878,467)**	(3,480,583)
	56,516,643	56,353,340

7 Loans and advances measured at amortised cost (continued)

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Manufacturing	**6,801,253**	6,788,348
Construction	**10,484,289**	9,791,085
Trade	**11,518,045**	10,671,456
Transport and communication	**3,600,258**	3,779,934
Services	**7,954,193**	7,364,593
Financial institutions	**1,284,377**	1,043,886
Personal	**14,054,819**	14,408,701
Government and related enterprises	**4,697,876**	5,985,920
	60,395,110	59,833,923
Less: Allowance for impairment	**(3,878,467)**	(3,480,583)
	56,516,643	56,353,340

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	**3,480,583**	3,069,205
Initial application of IFRS 9	**-**	907,731
Impairment allowance for the period / year	**262,643**	669,752
Interest in suspense	**140,239**	281,532
Exchange rate and other adjustments	**28,916**	2,468
Written off during the period / year	**(33,914)**	(1,450,105)
Balance at the end of the period / year	**3,878,467**	3,480,583

(d) The allowance for impairment includes a specific provision of AED 1,815 million for stage 3 loans of the Group.

8 Islamic financing and investment products measured at amortised cost

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Financing		
Murabaha	**7,525,590**	7,181,840
Ijara	**6,970,330**	6,036,980
	14,495,920	13,218,820
Investment		
Mudaraba	**18,466**	18,466
Wakala	**6,980**	10,948
	25,446	29,414
Total	**14,521,366**	13,248,234
Less: Unearned income	**(159,664)**	(192,923)
Allowance for impairment	**(154,310)**	(139,056)
	14,207,392	12,916,255

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Manufacturing	**567,024**	520,900
Construction	**2,725,114**	3,124,317
Trade	**1,821,762**	1,464,250
Transport and communication	**519,378**	345,286
Services	**5,137,109**	4,238,157
Financial institutions	**733,154**	734,464
Personal	**2,088,318**	2,121,271
Government and related enterprises	**929,507**	699,589
Total	**14,521,366**	13,248,234
Less: Unearned income	**(159,664)**	(192,923)
Allowance for impairment	**(154,310)**	(139,056)
	14,207,392	12,916,255

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

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	**139,056**	117,127
Initial application of IFRS 9	**-**	21,877
Impairment allowance for the period / year	**23,618**	122,556
Profit in suspense	**1,636**	158
Exchange rate and other adjustments	**(10,000)**	(50)
Written off during the period / year	**-**	(122,612)
Balance at the end of the period / year	**154,310**	139,056

(d) The allowance for impairment includes a specific provision of AED 75 million for stage 3 Islamic financing and investment exposure of the Group.

9 Investment properties

	30 June 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
At fair value		
Balance at beginning of the period / year	**489,885**	517,691
Change in fair value during the period / year	**-**	(27,806)
Balance at the end of the period / year	**489,885**	489,885

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

The fair value of the investment properties as at 31 December 2018 were arrived at on the basis of a valuation carried out by independent, professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value of the Group's investment properties is based on observable market inputs, i.e. Level 2.

10 Property and equipment

During the period, the Group purchased AED 193 million (period ended 30 June 2018: AED 88 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 4 million (period ended 30 June 2018: AED 4 million).

11 Deposits and balances due to banks

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

	30 June 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
Time	**5,624,740**	5,697,662
Demand	**1,747,582**	1,941,701
Overnight	**2,035,804**	1,420,600
	9,408,126	9,059,963

12 Customers' deposits

The analysis of customers' deposits is as follows:

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Current and other accounts	**34,283,826**	33,398,960
Saving accounts	**2,995,892**	3,038,875
Time deposits	**32,467,378**	36,084,021
	69,747,096	72,521,856

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Current and other accounts	**2,614,223**	4,588,535
Saving accounts	**123,125**	145,446
Time deposits	**5,125,222**	5,962,726
	7,862,570	10,696,707

14 Medium-term notes

	30 June 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
Medium term notes	**10,879,048**	8,185,390

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Year		
2019	**1,908,100**	6,285,157
2020	**4,240,214**	978,310
2021	**1,194,669**	367,300
2022	**371,996**	337,916
2023	**216,707**	216,707
2024	**2,947,362**	-
	10,879,048	8,185,390

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 six month period ended 30 June 2019, new medium-term notes of AED 7.07 billion were issued and AED 4.39 billion of medium-term notes were redeemed.

15 Issued and paid up capital

As at 30 June 2019, 177,530,823 ordinary shares of AED 10 each (31 December 2018: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 26 February 2019, the shareholders approved a cash dividend of 40% for the year ended 31 December 2018 (31 December 2017: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2017: AED 710 million).

Notes to the condensed consolidated interim financial information for the period from 1 January 2019 to 30 June 2019 (continued)

16 Non-controlling interests

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	**621,585**	762,974
Initial application of IFRS 16	**(49)**	-
Initial application of IFRS 9	**-**	(126,080)
Profit for the period / year	**40,566**	5,018
Other comprehensive income / (loss) for the period / year	**16,288**	(8,135)
Additional contribution received during the period	**-**	4,463
Dividends paid	**-**	(16,655)
Balance at the end of the period / year	**678,390**	621,585

17 General and administrative expenses

General and administrative expenses include senior management remuneration and director fees of AED 76 million for the six month period ended 30 June 2019 (six month period ended 30 June 2018: AED 76 million).

18 Earnings per share

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

	For the six month period ended	
	30 June 2019 (un-audited)	30 June 2018 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	**1,221,637**	1,161,382
Weighted average number of shares in issue	**177,530,823**	177,530,823
Basic earnings per share (AED)	**6.88**	6.54

There were no potentially dilutive shares as of 30 June 2019 and 30 June 2018.

19 Cash and cash equivalents

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000	30 June 2018 (un-audited) AED'000
Cash on hand	**769,863**	919,071	818,810
Current accounts and other balances with central banks	**5,136,275**	8,973,020	13,424,055
Certificates of deposit maturing within 3 months	**-**	4,000,000	2,700,000
Deposits and balances due from banks maturing within 3 months	**16,011,450**	14,912,292	11,541,265
Balances due to banks and financial institutions maturing within 3 months	**(7,820,175)**	(6,839,041)	(5,975,473)
Repurchase agreements with banks matruring within 3 months	**(581,603)**	(1,258,268)	(1,279,149)
	13,515,810	20,707,074	21,229,508

20 Contingent liabilities

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Guarantees	**45,440,728**	43,446,508
Letters of credit	**8,313,317**	8,051,513
	53,754,045	51,498,021

21 Derivative financial instruments

30 June 2019 (un-audited)

	Positive fair value AED'000	**Negative fair value** AED'000	**Notional Amount** AED'000
Held for trading:			
Forward foreign exchange contracts	**179,567**	**156,948**	**52,015,551**
Foreign exchange options (bought)	**-**	**4,015**	**2,815,154**
Foreign exchange options (sold)	**4,012**	**-**	**2,688,579**
Interest rate swaps	**430,392**	**426,273**	**19,233,103**
Credit default swaps	**-**	**62**	**30,898**
Futures contracts purchased (Customer)	**-**	**2,221**	**116,752**
Futures contracts sold (Customer)	**-**	**73**	**5,869**
Futures contracts sold (Bank)	**2,221**	**10**	**130,777**
Futures contracts purchased (Bank)	**136**	**-**	**11,094**
	616,328	**589,602**	**77,047,777**
Held as fair value and cash flow hedges:			
Cross currency swaps	**17,173**	**18,544**	**826,066**
	633,501	**608,146**	**77,873,843**

30 June 2019 (un-audited)

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Other assets				
Positive fair value of derivatives	-	**633,501**	-	**633,501**
Other liabilities				
Negative fair value of derivatives	-	**608,146**	-	**608,146**

21 Derivative financial instruments (continued)

31 December 2018 (audited)

	Positive fair value AED'000	**Negative fair value** AED'000	**Notional amount** AED'000
Held for trading:			
Forward foreign exchange contract	259,450	292,853	53,306,724
Foreign exchange options (bought)	-	5,329	1,191,765
Foreign exchange options (sold)	5,585	-	1,166,682
Interest rate swaps	251,274	245,948	21,455,121
Credit default swaps	-	553	12,616
Futures contracts purchased (Customer)	1,138	-	674,327
Futures contracts sold (Customer)	-	18,251	703,213
Futures contracts sold (Bank)	-	1,213	701,052
Futures contracts purchased (Bank)	18,429	-	703,213
	535,876	564,147	79,914,713
Held as fair value and cash flow hedges:			
Cross currency swaps	21,414	-	365,840
	557,290	564,147	80,280,553

31 December 2018 (audited)

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Other assets				
Positive fair value of derivatives	-	557,290	-	557,290
Other liabilities				
Negative fair value of derivatives	-	564,147	-	564,147

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

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

22 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim financial information for the six month period ended 30 June 2019 and 30 June 2018 respectively.

23 Related party transactions

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

(b) The Group is controlled by Al Ghurair Family members who own 88.07% (31 December 2018: 88.08%) of the issued and paid up capital. The remaining shares are widely held by other parties.

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balances		
Loans and advances	**3,670,201**	3,853,217
Deposits/ financial instruments under lien	**1,394,738**	1,112,073
Letters of credit and guarantee	**1,791,702**	1,269,230

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

	30 June 2019 (un-audited) AED'000	30 June 2018 (un-audited) AED'000
Transactions		
Interest income	**97,685**	58,173
Interest expense	**1,513**	3,478
Other income, net	**37,566**	24,987

24 Segmental information

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

Reportable segments

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

24 Segmental information (continued)

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

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

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

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

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

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

6. 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.

Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2019 to 30 June 2019 (un-audited)						
	Domestic corporate AED'000	**Domestic retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Head office** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**589,136**	**544,419**	**98,273**	**364,461**	**37,915**	**215,434**	**1,849,638**
Other income, net	**269,728**	**272,147**	**170,146**	**270,358**	**225,685**	**16,243**	**1,224,307**
Total operating income	**858,864**	**816,566**	**268,419**	**634,819**	**263,600**	**231,677**	**3,073,945**
General and administrative expenses							**(1,316,321)**
Allowances for impairment							**(481,719)**
Profit before taxes							**1,275,905**
Tax expense							**(13,702)**
Profit for the period							**1,262,203**
Attributed to:							
Owners of the Parent							**1,221,637**
Non-controlling interests							**40,566**
							1,262,203
	30 June 2019 (un-audited)						
Segment Assets	**45,926,329**	**15,275,455**	**17,165,894**	**34,106,939**	**4,434,203**	**19,519,189**	**136,428,009**
Segment Liabilities	**38,690,859**	**23,630,449**	**17,764,161**	**20,512,618**	**2,664,039**	**11,769,410**	**115,031,536**

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2018 to 30 June 2018 (un-audited)						
	Domestic corporate AED'000	**Domestic retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Head office** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	562,517	561,002	171,940	367,238	25,631	165,705	1,854,033
Other income, net	215,455	310,150	223,857	272,309	218,788	9,679	1,250,238
Total operating income	777,972	871,152	395,797	639,547	244,419	175,384	3,104,271
General and administrative expenses							(1,309,976)
Allowances for impairment							(589,079)
Profit before taxes							1,205,216
Tax expense							(21,458)
Profit for the period							1,183,758
Attributed to:							
Owners of the Parent							1,161,382
Non-controlling interests							22,376
							1,183,758
	31 December 2018 (audited)						
Segment Assets	44,062,069	15,333,110	19,987,996	36,906,173	4,110,739	19,531,520	139,931,607
Segment Liabilities	41,688,270	24,346,359	16,781,597	22,080,756	2,452,615	11,816,321	119,165,918

25 Fair value of financial instruments

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

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

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

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

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2018.

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

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

25 Fair value of financial instruments (continued)

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

Other financial assets	**Fair value as at**						
	30 June 2019		31 December 2018	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited)		(audited)				
	AED'000		AED'000				
Other financial assets measured at FVTPL							
Quoted debt investments	**209,976**		20,724	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**15,627**		10,752	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**635,122**		207,194	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Unquoted debt investments	**-**		55,095	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	**652,280**		597,921	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**236**		220	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,513,241		891,906				

25 Fair value of financial instruments (continued)

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

Other financial assets	**Fair value as at**						
	30 June 2019		31 December 2018				
	(un-audited)		(audited)				
	AED'000		AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Other financial assets measured at FVTOCI							
Quoted equity investments	**436,870**		356,824	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted debt investments	**778,037**		296,160	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted equity investments	**67,040**		192,869	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.
	1,281,947		845,853				
	2,795,188		1,737,759				

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

25 Fair value of financial instruments (continued)

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	**55,315**	60,058
Change in fair value	**(55,079)**	(4,743)
Balance at the end of the period / year	**236**	55,315

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	**192,869**	259,886
Purchases	**2,149**	-
Disposals	**(149,486)**	(7,569)
Change in fair value	**21,508**	(59,448)
Balance at the end of the period / year	**67,040**	192,869

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

26 Capital adequacy ratio

As per the Central bank regulation for Basel III, the capital requirement as at 30 June 2019 is 13% inclusive of capital conservation buffer.

The Bank must comply with the following minimum requirement:

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

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

	30 June 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Capital base		
Tier 1 capital	**20,199,934**	19,396,666
Tier 2 capital	**1,513,458**	1,422,061
Total capital base (A)	**21,713,392**	20,818,727
Risk-weighted assets		
Credit risk	**121,076,636**	113,764,844
Market risk	**2,758,022**	2,253,118
Operational risk	**10,527,207**	10,527,207
Total risk-weighted assets (B)	**134,361,865**	126,545,169
Capital adequacy ratio (%) [(A)/(B) x 100]	**16.16%**	16.45%

27 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information on pages 2 to 45 were approved by the Board of Directors on 21 July 2019.