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**BASE PROSPECTUS**

# Mashreqbank psc

*(incorporated with limited liability in the United Arab Emirates as a public shareholding company)*

## U.S.$5,000,000,000
## Euro Medium Term Note Programme

Under this U.S.$5,000,000,000 Euro Medium Term Note Programme (the "**Programme**") Mashreqbank psc, a public shareholding company incorporated in the United Arab Emirates (the "**UAE**") with limited liability ("**Mashreqbank**" or the "**Bank**"), may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Bank and the relevant Dealer (as defined below). The maximum aggregate principal amount of Notes outstanding at any one time under the Programme may not exceed U.S.$5,000,000,000 (or its equivalent in other currencies) (and, for this purpose, any Notes denominated in any other currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealership Agreement (as defined under "*Subscription and Sale*")), subject to any increase as described herein.

Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus (as defined below) to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Notes will be issued in Series (as defined under "*Terms and Conditions of the Notes*") and each Series may comprise one or more Tranches (as defined under "*Terms and Conditions of the Notes*") issued on different issue dates. Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche of Notes will be set out in a final terms document (the "**Final Terms**") (or, in the case of Unlisted Notes (as defined below), the relevant Pricing Supplement (as defined below)) which, with respect to Notes to be listed on the official list of the Luxembourg Stock Exchange, will be filed with the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") on or before the date of issue of the Notes of such Tranche.

Mashreqbank has been rated A by Fitch Ratings Limited ("**Fitch**"), Baa1 by Moody's Investors Service Ltd ("**Moody's**") and BBB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), and the Programme has been rated A by Fitch, P(Baa1) by Moody's and BBB+ by S&P. Each of Fitch, Moody's and S&P is established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). Each of Fitch, Moody's and S&P appears on the latest update of the list of registered credit rating agencies (as of 16 July 2017) on the European Securities and Markets Authority ("**ESMA**") website at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs. Notes issued under the Programme may be rated or unrated by any of the rating agencies referred to above.

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.**

This document constitutes a base prospectus ("**Base Prospectus**") in respect of non-equity securities within the meaning of Article 22 No. 6(4) of the Commission Regulation (EC) No. 809/2004 of 29 April 2004 and within the meaning of Article 5.4 of Directive 2003/71/EC, as amended (including by Directive 2010/73/EU and includes any relevant implementing measure in a relevant Member State) (the "**Prospectus Directive**") for all Notes issued under the Programme other than Unlisted Notes.

This Base Prospectus has been approved by the CSSF, which is the Luxembourg competent authority for the purpose of the Prospectus Directive and relevant implementing measures in Luxembourg, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to the issue of Notes issued under the Programme described in this Base Prospectus during the period of 12 months after the date hereof. The CSSF assumes no responsibility for the economic and financial soundness of the transaction or the quality or solvency of the Bank. Applications have been made for such Notes to be admitted during the period of 12 months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) in the EEA and/or quotation by any competent authority, stock exchange and/or quotation system ("**Unlisted Notes**") or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Bank. **For the avoidance of doubt, such Unlisted Notes are neither reviewed nor approved by the CSSF.**

The Bank may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes (the "**Conditions**") herein, in which event (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a new prospectus relating to that particular issue of Notes and (in the case of Unlisted Notes) a pricing supplement (the "**Pricing Supplement**") issued by the Bank will be made available which will describe the effect of the agreement reached in relation to such Notes. By approving this Base Prospectus the CSSF gives no undertaking as to the economic or financial opportuneness of the transaction or the quality and solvency of the Bank in line with the provisions of Article 7 (7) of the Luxembourg law dated 10 July 2005 on prospectuses for securities.

The Notes to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

***Investing in Notes issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Bank to fulfil its obligations under the Notes, see "Risk Factors" beginning on page 1.***

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY U.S. STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND THE OFFER AND SALE IS MADE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. SEE "*FORM OF THE NOTES*" FOR A DESCRIPTION OF THE MANNER IN WHICH NOTES WILL BE ISSUED.**

The Base Prospectus may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply. See "*Subscription and Sale*".

**Joint Arrangers**

**BofA Merrill Lynch** | **Morgan Stanley**

**Dealers**

**Barclays**
**BofA Merrill Lynch**
**Commerzbank**
**Deutsche Bank**
**Mashreq Capital (DIFC) Ltd.**
**Morgan Stanley**
**Société Générale Corporate & Investment Banking**
**BNP PARIBAS**
**Citigroup**
**Credit Suisse**
**J.P. Morgan**
**Mizuho Securities**
**Nomura**
**UBS Investment Bank**

The date of this Base Prospectus is 23 January 2018.

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This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in that Relevant Member State which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish a prospectus or a supplement to a prospectus for such offer.

The Bank accepts responsibility for the information contained in this Base Prospectus and the Final Terms or Pricing Supplement for each Tranche (as defined herein) of Notes issued under the Programme and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Where information has been sourced from a third party, the Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus. The information under the heading "*Overview of the United Arab Emirates*" and "*The United Arab Emirates Banking System and Prudential Regulation*", which is given as general information and has been reproduced from publicly available information, save that the Bank confirms that, as far as it is aware and is able to ascertain from publicly available information, no facts have been omitted which would render any reproduced information inaccurate or misleading. The Bank accepts responsibility only for the accurate extraction of such information from publicly available sources. **Except as aforesaid, to the best of the knowledge and belief of the Bank, having taken all reasonable care that such is the case, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

The accuracy or completeness of the information contained in this Base Prospectus has not been independently verified by Merrill Lynch International or Morgan Stanley & Co. International plc (together, the "**Arrangers**") or by the Dealers or any of their respective directors, officers, affiliates, advisers or agents. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers or any of their respective directors, officers, advisers, agents or affiliates as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme or the Notes or their distribution. Neither the Arrangers nor the Dealers accept any liability in relation to the information contained in this Base Prospectus or any other information provided by the Bank in connection with the Programme or the Notes or their distribution. Neither the Arrangers nor the Dealers shall be responsible for, or for investigating, any matter which is the subject of any statement, representation, warranty or covenant of the Issuer contained in the Notes, or any other agreement or document relating to the Notes, or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof.

This Base Prospectus must be read and construed together with any supplements hereto and, in relation to any Series or Tranche of Notes must be read and construed together with the applicable Final Terms.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any Dealer.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes: (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Bank or any Dealer that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each

investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank or any Dealer to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Bank since the date thereof or, if later, the date upon which this Base Prospectus has most recently been supplemented by a supplement to the Base Prospectus or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents contained in this Base Prospectus when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the Securities Act or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act. See "*Subscription and Sale*". The Notes are subject to U.S. tax law requirements.

NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

All applicable provisions of the FSMA, and all secondary legislation made pursuant to it, must be complied with. Accordingly, no offer or sale of, and no communication of any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in respect of, any Notes is being made hereby except in circumstances where the prohibition on financial promotion set out at Section 21(1) of the FSMA does not apply whether by reason of the application of the exemptions to such prohibition set out in the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005 (the "**Promotions Order**") or otherwise. In the United Kingdom, this Base Prospectus is only being distributed and made available to, and is only directed at, investment professionals within the meaning of Article 19(5) of the Promotions Order, and any other person into whose possession this Base Prospectus comes must not and should not take any action in respect of matters set out herein in respect to the Notes or otherwise. In the United Kingdom, persons not having professional experience in matters relating to investments of the type represented by the Notes should not rely on this Base Prospectus.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank, the Arrangers and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and the Bank, the Arrangers and the Dealers do not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Arrangers or the Dealers which would permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe any such restrictions on the

distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA, the United Kingdom, Japan, the People's Republic of China (the "**PRC**"), Italy, the Kingdom of Saudi Arabia, the United Arab Emirates (excluding the Dubai International Financial Centre) and the Dubai International Financial Centre; see "*Subscription and Sale*".

Unless otherwise specified in the Final Terms or any Pricing Supplement applicable to the Notes in a Series, the Notes in a Series will initially be represented by Global Notes (as defined below), which will be, on or about the relevant Issue Date, deposited with a depositary or common depositary for the accounts of Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") and/or Euroclear Bank SA/NV ("**Euroclear**", together with Clearstream, Luxembourg, the "**Clearing Systems**"). Beneficial interests in Global Notes will be exchangeable, in whole but not in part, for Definitive Notes in bearer form under the limited circumstances described below.

Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system, **provided that** the method of such delivery has been agreed between the Bank, the Issuing and Principal Paying Agent and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems. Beneficial interests in Global Notes held by Euroclear and/or Clearstream, Luxembourg will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg and their participants.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of such Notes).

This Base Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Base Prospectus may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Bank believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

The requirement to publish a base prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Unlisted Notes.

All references in this document to "**U.S. dollars**", "**U.S.$**" and "**$**" are references to United States dollars, all references to "**UAE dirham**" and "**AED**" are references to United Arab Emirates dirham, all references to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC (which, for the purposes of this Base Prospectus, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) and all references to "**euro**" and "**€**" are references to the currency introduced at the start of the third stage of the Treaty on the functioning of the European Community, as amended from time to time. The UAE dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the UAE dirham is at a fixed rate of AED 3.673 = U.S.$1.00.

References in this Base Prospectus to "**Final Terms**" shall, in the case of a Tranche of Unlisted Notes, be read and construed as a reference to the applicable Pricing Supplement, unless the context requires otherwise.

## NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus, he or she should consult an authorised financial adviser.

## STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, ONE OR MORE DEALERS ("THE **STABILISITION MANAGER(S)**") (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISITION MANAGER(S)) IN THE RELEVANT SUBSCRIPTION AGREEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON

BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## IMPORTANT – EEA RETAIL INVESTORS

If the relevant Final Terms in respect of any Notes (or the relevant Pricing Supplement, in the case of Unlisted Notes) includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs regulation.

## MIFID II PRODUCT GOVERNANCE RULES

A determination will be made at the time of issue about whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the "**MiFID II Product Governance Rules**"), any Dealer subscribing for a Series or Tranche of Notes is a manufacturer in respect of that Series or Tranche, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID II Product Governance Rules.

The relevant Final Terms in respect of any Notes (or Pricing Supplement, as the case may be) will include a legend entitled "MiFID II Product Governance" which will outline each manufacturer's product approval process, the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

## THE CREDIT RATING AGENCIES

Each of Fitch, Moody's and S&P has rated Mashreqbank, and Moody's has also rated the UAE; *see page 87*.

Fitch, Moody's and S&P are established in the EEA and registered under the CRA Regulation.

## SUPPLEMENTAL INFORMATION

The Bank has undertaken, in connection with the listing of the Notes on the official list of the Luxembourg Stock Exchange, that, if there shall occur a significant factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Notes, the Bank will prepare or procure the preparation of a supplement to this Base Prospectus or, as the case may be, publish a new Base Prospectus and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank, for use in connection with any subsequent issue by the Bank of Notes to be listed on the official list of the Luxembourg Stock Exchange and shall supply to the Arrangers and each Dealer such number of copies of such supplement hereto as such Arranger and/or Dealer may reasonably request.

## BENCHMARKS

Amounts payable under the Notes may be calculated by reference to LIBOR or EURIBOR (each as defined below) which are provided by the Intercontinental Exchange and the European Money Markets Institute, respectively. As at the date of this Base Prospectus, neither the Intercontinental Exchange nor the European Money Markets Institute appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("ESMA") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/2011 (the "**BMR**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the BMR apply, such that administrators are not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

## ENFORCEMENT OF FOREIGN JUDGMENTS

The Bank is a public shareholding company incorporated with limited liability in accordance with the laws of the UAE and the majority of its directors reside in the UAE. All or a substantial portion of the assets of the Bank and its directors are located in the UAE. As a result, it may not be possible for investors to: (a) effect service of process upon the Bank or any such directors outside the UAE; (b) enforce against any of them, in courts of jurisdiction other than the UAE, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; or (c) enforce against any of them, in UAE courts, judgments obtained in jurisdictions other than the UAE, including judgments on the Deed of Covenant in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Deed of Covenant, the Agency Agreement and the Notes are governed by, and construed in accordance with, English law (save for the subordination provisions of the Notes, which are subject to the application of mandatory provisions of the laws and regulations of the UAE) and disputes in respect of the Deed of Covenant, the Agency Agreement and the Notes may be settled by arbitration under the rules of the London Court of International Arbitration in London, England. In addition, under the Conditions, the Bank has agreed to: (i) submit to the jurisdiction of the courts of England for the purposes of any suit, action or proceeding arising out of or related to the Notes and the Coupons; and (ii) appoint an agent for service of process in England. See "*Terms and Conditions of the Notes — Governing Law and Jurisdiction*". However, there is a risk that the courts of the UAE may only recognise a choice of law other than the law of, and applicable in, the UAE if they are satisfied that there exists an appropriate nexus between the contract expressed to be governed by such law and the foreign law system chosen. Further, the courts of the UAE will not honour any provision of any foreign law system they do recognise as validly chosen which is contrary to Islamic *Shari'a* jurisprudence, public order or morals or to any mandatory law of, or applicable in, the UAE.

**CONTENTS**

**Page**

RISK FACTORS ..... 1
GENERAL DESCRIPTION OF THE PROGRAMME ..... 17
OVERVIEW OF THE PROGRAMME ..... 18
FORM OF THE NOTES ..... 22
TERMS AND CONDITIONS OF THE NOTES ..... 26
USE OF PROCEEDS ..... 53
SELECTED FINANCIAL INFORMATION ..... 54
ALTERNATIVE PERFORMANCE MEASURES ..... 55
DESCRIPTION OF THE BANK ..... 57
MANAGEMENT AND EMPLOYEES ..... 77
OVERVIEW OF THE UNITED ARAB EMIRATES ..... 82
THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION ..... 90
TAXATION ..... 100
SUBSCRIPTION AND SALE ..... 103
GENERAL INFORMATION ..... 109
ANNEX A: FORM OF FINAL TERMS ..... 112
ANNEX B: FORM OF PRICING SUPPLEMENT ..... 118
ANNEX C: INDEX TO FINANCIAL STATEMENTS ..... 124

# RISK FACTORS

*The following factors may affect the ability of the Bank to fulfil its obligations in respect of Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Base Prospectus, the following risks associated with investment in UAE entities generally and in securities issued by the Bank specifically, as the case may be, which (although not exhaustive) could be material for the purpose of assessing the market risks associated with Notes issued under the Programme. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in the UAE which in some respects may differ from that prevailing in other countries.*

*Prospective investors should note that the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons other than those stated below. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in any Notes issued under the Programme and the suitability of investing in such Notes in light of their particular circumstances, without relying on the Bank, the Arrangers or the Dealers. Investors are advised to make, and will be deemed by the Dealers and the Bank to have made, their own investigations in relation to such factors before making any investment decisions in relation the Notes.*

## Risk Factors relating to the Bank

### *Selective Growth*

The Bank's gross loans and advances, including Islamic financing, (before allowances) increased during 2017 and were AED 68,443 million as at 30 September 2017 compared to AED 64,269 million as at 31 December 2016 and AED 62,980 million as at 31 December 2015. The increase in the gross loan portfolio over the period was in line with the positive development of economic conditions in the region that the Bank operates in. Due to prevailing economic conditions, the Bank's credit exposure will require continued monitoring by the Bank's management of credit quality and continued improvement in the Bank's credit risk management policies and procedures.

In particular, the Bank's strategy of further diversifying its customer base, for example by increased lending to small and medium sized enterprises ("**SMEs**") and retail customers, may also increase further the credit risk exposure in the Bank's loan portfolio. SMEs and retail customers typically have less financial strength to withstand a severe downturn. In addition, there is generally less financial information available about smaller companies and retail customers in the UAE. Failure to manage growth and development successfully, including by estimating impairments and implementing additional credit risk management policies and procedures to maintain the quality of the Bank's assets, could have a material adverse effect on the Bank's results of operations and financial condition.

Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain a significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality, but also to ensure access to appropriately flexible funding sources that do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of new products geared to the Bank's expanded customer profiles, including, for example, by targeting SMEs and retail borrowers, require credit assessment skills and input from personnel, as well as well-developed and practised risk management procedures and systems.

There can be no assurance that the Bank will obtain the necessary skills and systems to manage the growth of its business and the related risks in a timely manner, if at all. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's results of operations and financial conditions.

### Principal Shareholder

As at 30 September 2017, approximately 88.05 per cent. of the capital of the Bank is owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them. The Bank

emphasises good corporate governance and maintains independent non-executive directors on its board, as well as a leadership forum comprised of senior managers who, other than the Chief Executive Officer, are unrelated to the Al-Ghurair family. See "*Management and Employees – Corporate Governance*", "*Management and Employees – Board of Directors*" and "*Management and Employees – Board of Directors - Leadership Forum*". The Bank is also subject to the regulatory regime described in "*The United Arab Emirates Banking System and Prudential Regulation*". Nevertheless, the Al-Ghurair family has the ability to influence the Bank's business significantly through their ability to control actions that require shareholder approval.

***Concentration of Deposit Base***

Concentrations in the Bank's deposit portfolio subject it to funding risks from withdrawal of large deposits.

As at 30 September 2017, the Bank's 12 largest corporate depositors accounted for approximately 18.4 per cent. of total amounts owed to customers compared to 18.3 per cent. as at 31 December 2016. The Bank intends to reduce the concentration in its deposit base by attracting SME and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's results of operations and financial condition.

The Bank's Assets and Liabilities Committee ("**ALCO**") meets on at least a monthly basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and domestic and international economic and financial market conditions.

Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition or results of operations as well as its ability to meet the UAE Central Bank target stable resources ratio of 100 per cent.

**Liquidity Risk**

Liquidity risks could arise from the inability of the Bank to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the Bank's ability to meet its obligations when they fall due.

An inability on the Bank's part to access funds or to access the markets from which it raises funds may put the Bank's position in liquid assets at risk and lead to it being unable to finance operations adequately. A dislocated credit environment also compounds the risk that the Bank will not be able to access funds at favourable rates. These and other factors could also lead creditors to form a negative view of the Bank's liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. In addition, because the Bank receives a significant proportion of its funding from customer deposits, the Bank is subject to the risk that customers could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strain.

Although the UAE Ministry of Finance and the UAE Central Bank has supported the domestic banking industry in the past, there can be no assurance that either the UAE Ministry of Finance or the UAE Central Bank will provide any additional support to the Bank and the domestic banking industry or initiate support if another major economic disruption were to occur in the future.

Although the Bank believes that its level of access to domestic and international markets and its liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet the Bank's liquidity needs for a certain period, allow and will continue to allow the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities may have a material adverse effect on the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

The Bank expects to be compliant with both qualitative and quantitative requirements of the UAE Central Bank's liquidity regulations, as they come into force.

**Interest Rate Risk**

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. Although: (i) the Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities; and (ii) both deposits and loans often reprice simultaneously providing a natural hedge which reduces the interest rate exposure, sharp interest rate movements could have a material adverse effect on the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

**Foreign Currency Risks**

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The UAE dirham is the Bank's functional currency. Almost all of the Bank's assets and liabilities are denominated in UAE dirham or U.S. dollars and are match funded in the same currency. As a result, limited structural cross-currency foreign currency exposure exists. However, the Bank does maintain a long U.S. dollar position and a position in Qatari Riyals and Jordanian Dinar within limits approved by the Bank's ALCO.

**Credit Default Risk**

Credit risk is the risk that a customer or counterparty will fail to meet its obligations in accordance with agreed terms and in so doing will cause the Bank to incur a financial loss. The Bank manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, diversification of lending activities and compliance with UAE Central Bank regulatory requirements and internal limits to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. Concentration in the Bank's loan portfolios subject it to risks from default by its larger borrowers and/or from exposures to particular sectors of the UAE economy.

As at 30 September 2017, the Bank's 12 largest borrowers accounted for 26.4 per cent. of gross loans and advances, including Islamic financing, compared to 20.3 per cent. as at 31 December 2016. The Bank will have to continue to place emphasis on credit quality and to further develop financial and management controls to monitor this credit exposure. A failure to achieve this could have a material adverse effect on the Bank's results of operations and financial condition.

As at 31 December 2016, the Banks' assets and liabilities stood at AED 74,224 million and AED 59,784 million respectively in the UAE, AED 21,314 million and AED 21,619 million respectively in the other Middle Eastern countries and AED 27,275 million and AED 21,925 million outside the region.

Credit risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in a wide range of the Bank's businesses. Credit risks could arise from deterioration in the credit quality of specific counterparties of the Bank, from a general deterioration in local or global economic conditions or from systemic risks within the financial systems. The ratio of the Bank's gross non-performing loans (including Islamic financing) to gross loans (including Islamic financing) increased from 2.8 per cent. for the year ended 31 December 2015 to 3.1 per cent. for the year ended 31 December 2016, and has increased to 3.7 per cent. as at 30 September 2017. The Bank's loan-loss coverage level decreased from 151 per cent. for the year ended 31 December 2016 to 134 per cent. as at 30 September 2017.

2016 was a challenging year for the banking sector in the UAE as a result of three key factors: lower oil prices; a strong US dollar impacting non-oil private sector firms; and fiscal consolidation. Although oil prices have risen and remained stable during 2017, the prices still remain low in comparison to historic figures and no financial stimulus has occured. Should these adverse conditions reoccur or persist for a prolonged period, the Bank may experience a higher level of credit defaults in the future, which could have a material adverse effect on the results of operations or financial condition of the Bank. See "*Description of the Bank – Risk Management*" and "*Description of the Bank – Litigation*".

***The Bank has credit related contingent items and commitments that may lead to potential losses***

As part of its normal banking business, the Bank issues loan commitments, guarantees, letters of credit and other financial facilities, all of which are accounted for off the Bank's balance sheet until such time as they are actually funded or cancelled. Although these commitments are largely trade contingent and therefore off balance sheet, they nonetheless subject the Bank to related credit and liquidity risks. While the Bank anticipates that only a portion of the Bank's obligations in respect of these commitments will be

triggered, the Bank may become obligated to make payments in respect of a greater portion of such commitments, which could have a material adverse effect on the Bank's funding needs and credit risks. As at 31 December 2016, the Bank had USD 13,866 million in such contingent liabilities.

***Real Estate Exposure***

Real estate exposures represent 24.5 per cent of the Bank's total deposits and combined exposures to the real estate and construction sector represent 25.1 per cent. of the Bank's total gross loans and advances, including Islamic financing, as at 30 September 2017, while total funded real estate and construction exposure stood at AED 17.1 billion.

Dubai has witnessed healthy activity across all segments of the real estate market from 2012 on the back of a favorable rebalancing of the underlying demand/supply dynamics and improved investor interest. With supply expanding, prices have eased slightly in recent years due to the high levels of construction in the lead up to the Expo 2020 (see "*Overview of the United Arab Emirates – Expo 2020*"). It is anticipated that Dubai's successful Expo 2020 bid will encourage an increase in real estate prices.

A decrease in real estate prices or a default of the Bank's main real estate related clients could have a material adverse effect on the financial condition or results of operations of the Bank.

***Litigation***

The Bank continues to be involved in pending lawsuits in the Dubai courts, and investors should be aware that until such time as these matters are concluded, there can be no assurance of their outcomes. See further "*Description of the Bank – Litigation*".

***Risk Management Systems***

Measurement and management of various types of banking risks requires substantial resources. Although management believes that the Bank's information technology and management information systems, policies and procedures are adequate for the purposes of measuring, monitoring and managing the Bank's exposure to credit, operational, liquidity, interest rate, foreign exchange and other market risks in the context of its existing business, as the Bank's business continues to grow and develop, the Bank's risk profiles are likely to change, particularly as growth in the loan portfolio is focused on SMEs and retail borrowers. Management continually assesses its risk management infrastructure and resources and the Bank has made considerable investments in information technology over the last few years. In the event that the Bank's risk management systems are not developed in line with the growth in the Bank's business and related shifts in its risk exposures, this could have a material adverse effect on the business, results of operations, financial condition and prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

***Operational Risk Management***

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches and technology failure. The Bank has developed policies, processes and assessment methodologies such as Risk & Control Self Assessment ("**RCSA**") to ensure that operational risk is appropriately identified and managed with effective controls. Despite having the RCSA policies and controls in place, operational risks are inherent in the Bank's day to day businesses and may lead to unexpected losses.

***Lack of Information and Risk Assessments***

Statistical information published in the UAE relating to the economy generally or to specific economic sectors within it and corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in many countries with established market economies. Thus, obtaining statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank relating to its prospective corporate borrowers or retail clients makes the assessment of credit risk, including the valuation of collateral, more challenging. Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable impairment assessment and collateralisation requirements, the absence of additional statistical, corporate and financial information may impact the accuracy of the Bank's

assessments of credit risk, thereby increasing the risk of under-provisioning and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

***Exposure to Sovereigns***

Debt securities held by the Bank include securities issued by the UAE Central Bank, UAE banks and OECD sovereigns, as well as a range of high-grade bonds. Under statutory requirements, the Bank's foreign branches are required to maintain a certain portion of their deposits in sovereign or public sector bonds to meet regulatory reserve requirements. Moreover, since the Bank has scaled down its corporate lending at certain overseas branches, all liquid funds at overseas branches have been invested in securities of the respective governments. The debt securities held by overseas branches constituted approximately 20.6 per cent. of the investment portfolio as at 30 September 2017. As a result, any failure by the UAE Central Bank or any relevant overseas government could adversely affect the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

***Competition***

The Bank is subject to competition from both domestic and foreign banks. As at 31 December 2016, there were 48 banks licensed in the UAE, 26 of which were banks with foreign ownership. Foreign banks have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in the UAE. See "*Description of the Bank — Competition*".

***Dependence on Key Personnel***

The Bank's success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank also relies on its senior management for the implementation of its strategy and its day-to-day operations. As competition for skilled personnel, especially at the senior management level, is intense, the Bank continues to take measures to attract and motivate skilled personnel.

Competition in the UAE for personnel with relevant expertise is also intense due to a disproportionately low number of available qualified and/or experienced individuals compared to demand. If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, this could have a material adverse effect on the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

**Risks relating to Notes denominated in Renminbi**

Notes denominated in Renminbi ("**RMB Notes**") may be issued under the Programme. A description of risks which may be relevant to an investor in RMB Notes are set out below:

***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of RMB Notes***

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been a reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being developed.

Although from 1 October 2016, Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite a Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Bank to source Renminbi to finance its obligations under Notes denominated in Renminbi.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the RMB Notes and the Bank's ability to source Renminbi outside the PRC to service RMB Notes***

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the People's Bank of China ("**PBoC**") has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Baskets**") in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong, has established the Cross Border Inter Bank Payments System (CIPS) to facilitate cross border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Notes. To the extent the Bank is required to source Renminbi in the offshore market to service its RMB Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

***Investment in RMB Notes is subject to exchange rate risks***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the PBoC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. Dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. The Bank will make all payments of interest and principal with respect to the RMB Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

***Investment in the RMB Notes is subject to currency risk***

If the Bank is not able, or it is impracticable for it, to satisfy its obligation to pay interest and principal on the RMB Notes as a result of a RMB Currency Event (as defined in the Conditions), the Bank shall be entitled, on giving notice as soon as practicable to the investors in accordance with the Conditions stating

the occurrence of the RMB Currency Event, giving details thereof and the action proposed in relation thereto, to settle any such payment in the Relevant Currency (as specified in the relevant Final Terms or Pricing Supplement, as applicable) converted using the Spot Rate for the relevant Rate Calculation Date (as defined in the Conditions) of any such interest or principal, as the case may be.

***Payments with respect to the RMB Notes may be made only in the manner designated in the RMB Notes***

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by global certificates held with the common depositary, for Clearsteam Banking *société anonyme* and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the relevant Final Terms or Pricing Supplement, as applicable, (ii) for so long as the RMB Notes are represented by global certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures or (iii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the relevant Final Terms or Pricing Supplement, as applicable, in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

***Gains on the transfer of the Renminbi Notes may become subject to income taxes under PRC tax laws***

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise from the transfer of Renminbi Notes but its implementation rules have reduced the enterprise income tax rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Holder from the transfer of Renminbi Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and become subject to the EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if non-PRC enterprise or individual resident Holders are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual resident Holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Notes may be materially and adversely affected.

**Risk Factors relating to the United Arab Emirates**

***General Risk; Emerging Market Risk***

The Bank has a majority of its operations and a majority of its assets in the UAE and, accordingly, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East generally. Moreover, investors should note that the Bank's business and financial performance could be adversely affected by political, economic and related developments both within and outside countries in which the Bank operates because of the inter-relationship with global financial markets.

Investors should also be aware that investments in emerging markets, such as the UAE, are subject to greater risks than investments in more developed markets, including in some cases significant legal, economic and political risks. Moreover, although economic conditions are different in each country,

investors' reactions to developments in one country may affect securities of issuers in other countries, including the UAE. Accordingly the market prices of Notes may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, an investment in Notes is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Since early 2008 and the more widespread dislocation in international financial markets, it has become increasingly difficult to predict accurately likely short-to-medium term trends in the economies in which the Bank operates. Nonetheless, there is evidence of significant weakening in each of these economies, including the Bank's key markets, such as the UAE, where a number of concerns (including commercial and other property market concerns) continue to impact consumer and investor confidence. Any contraction of its key markets will impact the Bank and other participants in the financial sector.

***The UAE's economy is highly dependent upon its oil revenue***

Although the UAE has a more diversified economy than most of the other countries in the GCC, the UAE's economy is highly dependent upon its oil revenues.

According to Organisation of the Petroleum Exporting Countries ("**OPEC**") data, as at 31 December 2016, the UAE had approximately 6.6 per cent. of proven global crude oil reserves which generated 21.3 per cent. of its nominal GDP and made up 16.9 per cent. of the total value of the UAE's exports (including re-exports) in 2016 (according to preliminary data produced by the FCSA and the Central Bank). According to the OPEC website, the price of the OPEC Reference Basket has fluctuated significantly in recent years. During the second half of 2008 and into 2009, world oil prices fell approximately 70 per cent. from their peak level of U.S.$137 per barrel reached in July 2008 to an average of approximately U.S.$62.7 per barrel for the year ended 31 December 2009, before returning to an average of approximately U.S.$105.87 per barrel for the year ended 31 December 2013. However, between July 2014, when the monthly average OPEC Reference Basket price per barrel was U.S.$107.9 and January 2016, crude oil prices fell sharply, by approximately 75 per cent. to a monthly average price of U.S.$26.50. Since this low point, there has been a global correction in prices and, as at 30 September 2017, the monthly average price of the OPEC Reference Basket had recovered to U.S.$53.44 per barrel. Oil prices are expected to continue to fluctuate in the future in response to changes in many factors over which the Bank has no control. Factors that may affect the price of oil include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members on OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

Declines in international prices for hydrocarbon products in the future could therefore adversely affect the UAE's economy which, in turn, could have an adverse effect on the Bank's business, financial condition and results of operations.

***Tax changes in the UAE may have an adverse effect on the Bank***

As at the date of this Base Prospectus, the Bank is not currently subject to corporation tax (or any other analogous tax) on its earnings within the UAE and the UAE does not impose value-added tax ("**VAT**") on the sale of goods and services. However, investors should be aware that on 24 February 2016, the UAE Minister of State for Financial Affairs announced that, pursuant to a GCC-wide framework agreement on

the implementation of VAT, the UAE will implement VAT at the rate of 5 per cent. on goods and services with effect from 1 January 2018.

The GCC-wide framework agreement for VAT is yet to be made available. However, the UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No. 8 of 2017). On 1 October 2017, the Ministry of Finance also published executive legislation for the implementation of excise tax with immediate effect. This is considered to be the first phase of the new tax system in the UAE.

It is possible that, once VAT is introduced in the UAE, the Bank's costs would increase and its future profitability could be negatively affected.

The implementation of VAT and/or any future corporation tax regime which may be introduced in the UAE may have a material adverse effect on the Bank's business, results of operations and financial condition, which in turn could affect the Bank's ability to perform its obligations in respect of any Notes issued under the Programme.

***Foreign exchange movements may adversely affect the Bank's profitability***

The Bank maintains its accounts, and reports its results, in the UAE dirham, while the Notes are likely to be denominated and payable in U.S. dollars or other foreign currencies. Although the AED has been 'pegged' at a fixed exchange rate to the U.S. dollar since 22 November 1980, the Bank is exposed to the potential impact of any alternation to, or abolition of, this foreign exchange 'peg'.

***Political, Economic and Related Considerations***

While, historically, the UAE has enjoyed significant economic growth and relative political stability, there can be no assurance that such growth or stability will continue, particularly in the light of significant adverse financial and economic conditions experienced worldwide since early 2008. Since that time, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the Gulf Co-operation Council ("**GCC**") and the UAE, especially in Dubai. Consequently, certain sectors of the GCC economy such as financial institutions that had benefited from such high growth rates, have been adversely affected by the global slowdown.

Moreover, although the UAE government's policies have generally resulted in improved economic performance, no assurance can be given that such level of performance will be sustained. Similarly, since 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. The adverse market conditions have impacted investment markets both globally and in the UAE, including adverse changes and increased volatility in interest rates and exchange rates and decreased returns from equity, property and other investments. Such conditions, particularly if they persist for prolonged periods will likely exacerbate the adverse effects that have already been manifested in the UAE property sector.

Furthermore, despite the partial correction in global crude oil prices through 2016 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$51.67 per barrel for the year ended 31 December 2016), the economies of the oil-revenue dependent GCC states have continued to be adversely affected with greater budget deficits, a decrease in fiscal revenues and consequent lower public spending seen in 2016. This has resulted in the downgrading, or placing on "creditwatch", of a number of GCC sovereigns.

No assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies, including policies or regulations, or new legal interpretations of existing policies or regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on such performance and, in turn, on the Bank's business, financial condition, results of operations or prospects which could adversely affect the market price and liquidity of the Notes.

In addition, much of the revenue to the UAE is generated by the delivery of oil and gas services. The flow of revenue could be disrupted or affected by the occurrence of events or circumstances such as war, terrorist activity, attacks on oil installations and other similar events or general decline in global oil prices.

While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not. In particular, since early 2011 there has been political unrest (leading in certain circumstances to a change in political regime) in a range of countries in the Middle East and North Africa ("**MENA**") region, including Algeria, Egypt, the Hashemite Kingdom of Jordan, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Libya, the Republic of Yemen, the Sultanate of Oman, Syria and Tunisia. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war and has given rise to increased political uncertainty across the region.

Additionally, in June 2017 a number of MENA countries including the UAE, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the Arab Republic of Egypt severed diplomatic relations with the State of Qatar (in which the Bank has five branches), citing Qatar's alleged support for terrorism and accusing Qatar of creating instability in the region. The termination of diplomatic relations included the withdrawal of ambassadors and imposing trade and travel bans.

The Bank's business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and the MENA region. It is not possible to predict the occurrence of events or circumstances such as war, terrorism, civil unrest or hostilities, or the impact of such occurrences, and no assurance can be given that the Bank would be able to sustain its business and/or the development of all of its projects if further adverse political events or circumstances were to occur. Any such occurrences could have a material adverse effect on the Bank's business, financial condition and results of operations and this could therefore affect the ability of the Bank to perform its obligations in respect of any Notes.

As at the date of this Base Prospectus, 50 per cent. of the Bank's loans and advances, including Islamic financing, are to corporate and commercial borrowers in the UAE and accordingly, a downturn or instability in certain sectors of the UAE or regional economy could have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

***Regulation of the Banking Industry***

The Bank is subject to the laws, regulations, administrative actions and policies of the UAE and each jurisdiction in which it operates. Such laws, regulations, administrative actions and policies may limit the Bank's activities and changes in supervision and regulation, in particular in the UAE, could materially affect the Bank's business such as pursuant to the Basel III Accord ("**Basel III**") and/or new regulations relating to large exposures set out in the 2012 Large Exposures Limits Circular (as defined below under "*The United Arab Emirates Banking System and Prudential Regulation*"), the products or services offered, the value of its assets and its financial condition.

Regulatory standards applicable to banks in the UAE and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. See "*The United Arab Emirates Banking System and Prudential Regulation*". There can be no assurance that the UAE Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, commissions, fees, inflation or exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, results of operations, financial conditions or prospects, and further on the market price and liquidity of the Notes.

Although the Bank works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies which may have a material adverse effect upon the Bank's business, the value of its assets and its financial condition cannot be predicted and are beyond the control of the Bank. A description of the legal and regulatory environment applicable to banks generally in the UAE is set out below under "*The United Arab Emirates Banking System and Prudential Regulation*".

***Changes to the Basel regulatory framework as implemented in the UAE may have an effect on Subordinated Notes***

The Basel Committee on Banking Supervision (the "**Basel Committee**") has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance (the "**Basel III Reforms**") on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity

standards for credit institutions ("**Basel III**"). The international implementation of the Basel III reforms began on 1 January 2013, however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January, 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**January 2011 Press Release**") included an additional qualification requirement for Tier 1 and Tier 2 capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative terms providing for, at the option of the relevant authority, the writing-off of the principal amount of Tier 2 instruments or the conversion of such Tier 2 instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a "**Non-Viability Event**"). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "**Non-Viability Event**" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in the UAE.

In May 2016, the Central Bank published a draft consultation document entitled "Capital Adequacy Regulation" (the "**Consultation Document**"), detailing the Basel III requirements expected to be followed by banks operating in the UAE, once applicable legislation has been implemented domestically. In particular, the Consultation Document outlines the general quantitative requirements expected to be followed by UAE banks, with regards to Common Equity Tier I capital, Additional Tier I capital and Tier II capital (together, "**Regulatory Capital**"). It also outlines, amongst other things, the Regulatory Capital ratios that UAE banks will be expected to follow and adhere to, the individual UAE bank minimum capital conservation standards and the required disclosure standards expected to be made available by UAE banks with respect to Regulatory Capital.

On 23 February 2017, the UAE Central Bank published the "Regulations regarding Capital Adequacy" (the "**February 2017 Regulations**") in the Official Gazette issue 612, which became effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with Basel III requirements, whilst implementing the measures contained in the Consultation Document. The February 2017 Regulations are supported by accompanying standards (the "**Accompanying Standards**") which are yet to be issued as at the date of this Base Prospectus. The Accompanying Standards will elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements. Banks which are classified as D-SIBs by the UAE Central Bank will be required to hold additional capital buffers as notified to it by the UAE Central Bank. In addition, a bank may also be subject to additional capital add-on requirements following a Supervisory Review and Evaluation process of the UAE Central Bank.

As at the date of this Base Prospectus, the UAE has not fully implemented Basel III. In advance of the enactment of the Accompanying Standards to fully implement Basel III in the UAE, it is not possible to accurately predict the precise form in which Basel III will be introduced and whether or not such implementation will be in accordance with the provisions set out in the February 2017 Regulations. Accordingly, the UAE Central Bank's ultimate implementation of Basel III may further increase the regulatory burden on UAE financial institutions such as the Bank, which could adversely impact the Bank's business. For example, if further counter-cyclical or systemically important buffers are implemented by the UAE Central Bank as part of the wider introduction of the Basel III Reforms, it is possible that UAE financial institutions, including the Bank, will be required to increase the levels of Regulatory Capital that they hold on their balance sheets. Additionally, financial institutions, such as the Bank, which hold existing Tier I or Tier II capital instruments (as so classified under Basel II principles) may also be adversely affected if the UAE Central Bank's implementation of Basel III does not provide for grandfathering treatment of these pre-existing instruments. As at 30 September 2017, the Bank's total capital adequacy ratio was 18.0 per cent.

Such regulations may limit the Bank's ability to increase its loan portfolio or raise capital or may increase the Bank's cost of doing business. Any further changes in laws or in Central Bank regulations or policy and/or the manner in which they are interpreted or enforced may affect the Bank's reserves, revenues and performance and may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. Furthermore, non-compliance with regulatory guidelines could expose the Bank to potential liabilities and fines. Although the Bank works closely with its regulators and

continually monitors compliance with Central Bank regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control.

***UAE law and courts and the enforcement of foreign judgments in the Emirate of Dubai***

The payments under the Notes are dependent on the Bank making payments in the manner contemplated under the Notes. If the Bank fails to do so, it may be necessary to bring an action against the Bank to enforce its obligations and/or to claim damages as appropriate, which may be costly and time-consuming.

Under the Conditions, the Bank has irrevocably agreed for the exclusive benefit of the Noteholders and the Couponholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Notes and the Coupons and for such purposes, irrevocably submits to the jurisdiction of such courts. Any dispute arising from or connected with the Notes may alternatively be referred to arbitration in London in accordance with the rules of the London Court of International Arbitration.

However, under current UAE federal law, the courts in the UAE are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a court in the UAE may not accord with that of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in Dubai have no binding effect on subsequent decisions. In addition, court decisions in Dubai are generally not recorded. These factors create greater judicial uncertainty than would be expected in other jurisdictions.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. In the absence of any other multilateral or bilateral enforcement convention, an arbitration award rendered in London should be enforceable in the UAE in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V(1) of the New York Convention to refuse enforcement, or the UAE courts find pursuant to Article V(2) of the New York Convention that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE. There have been limited instances where the UAE courts, most notably the Fujairah Court of First Instance and the Dubai Court of Cassation, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention.

There is, however, no system of binding judicial precedent in the UAE and, in practice, how the New York Convention provisions would be interpreted and applied by the UAE courts, and whether the UAE courts will enforce a foreign arbitration award in accordance with the New York Convention (or any other multilateral or bilateral enforcement convention), remains largely untested. In particular, there remains a risk that notwithstanding Article 238 of Federal Law No. 11 of 1992 (as amended by Federal Law No. 30 of 2005), (the "**Law of Civil Procedure**") or the terms of an applicable multilateral or bilateral enforcement convention, the UAE courts may in practice still consider and apply the grounds set out in the Law of Civil Procedure related to the enforcement of foreign arbitral awards to the enforcement of a foreign arbitral award in any event, notwithstanding that Articles 235 to 238 of the Law of Civil Procedure should now apply only to the enforcement of domestic arbitration awards as the UAE has ratified the New York Convention. If this is the case, it is likely that a foreign arbitral award will be set aside by the UAE courts.

***UAE bankruptcy law may adversely affect the holders of Notes***

In the event of the Bank's insolvency, UAE bankruptcy law may adversely affect the Bank's ability to make payments to Noteholders. There is little precedent to predict how any claims by Noteholders would be resolved in the case of the insolvency of the Bank.

**Risk Factors relating to the Notes**

***Notes subject to Optional Redemption by the Bank***

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. However, this may also be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider the reinvestment risk in light of other investments available at that time.

***Risks related to Notes which are linked to "benchmarks"***

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

***Subordination***

Purchasers of Subordinated Notes should be aware that the rights of holders of Subordinated Notes against the Bank are subordinated in right of payment to the claims of all Senior Creditors (creditors of the Bank (including depositors), other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the Bank's subordinated and unsecured creditors, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application) of the Bank and, accordingly, payments by the Bank in respect of Subordinated Notes (whether on account of principal, interest or otherwise) are conditional upon the Bank being solvent at the time of such payment. No payment shall be payable by the Bank in respect of Subordinated Notes except to the extent that the Bank could make such payment, and any other payment required to be made to a creditor in respect of any indebtedness, which ranks or is expressed to rank *pari passu* with the relevant Subordinated Notes, and still be solvent immediately thereafter. For this purpose, the Bank shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its assets exceed its liabilities.

***Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

***Notes issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***No Third Party Guarantees***

Investors should be aware that no guarantee is given in relation to the Notes by the shareholders of the Bank or any other person.

***No Market; Illiquidity***

Although an application has been made to admit the Notes issued or to be issued under the Programme to trading on the regulated market of Luxembourg Stock Exchange, each Series or Tranche of Notes will constitute a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes, but are not obligated to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes (including, in particular RMB Notes) or, if a secondary market therein does develop, that it will continue. Accordingly, the purchase of Notes is suitable only for investors who can bear the risks of no liquidity and the financial and other risks associated with an investment in Notes.

***No Deposit Insurance***

The Notes: (a) are not guaranteed, insured or otherwise backed by the credit of any government or any agency or political subdivision thereof; (b) are not guaranteed or insured by any private deposit insurance corporation or agency; and (c) do not constitute London Certificates of Deposit.

***Exchange Trading***

If a particular Tranche of Notes issued under the Programme is to be traded on the regulated market of the Luxembourg Stock Exchange or on or by any other relevant stock exchange, competent authority and/or quotation system within the European Union (the "**EU**"), which qualifies as a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2005/39/EC) (each, for the purposes of the following, an "**EU Exchange**"), the Bank expects, but is not obligated to investors, to maintain the eligibility of the Notes for trading on such EU Exchange(s). Changed circumstances, including changes in applicable regulatory requirements, could result in a suspension or removal of trading privileges, or cause the Bank to conclude that continued trading of the Notes on such EU Exchange(s) is unduly burdensome.

***Modification and substitution***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Bank may agree, without the consent of Noteholders, to any modification of any Notes to correct a manifest error, in the circumstances specified in Condition 16 (*Meetings of Noteholders; Modification and Waiver*).

***Change of law***

The structure of the issue of the Notes under the Programme is based on English law, UAE law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, UAE law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Bank to make payments under the Notes to be issued under the Programme or to comply with its obligations under the transaction documents to which it is a party.

***Notes where denominations involve integral multiples: Definitive Notes***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination.

In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination would need to purchase an additional amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note. If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Trading in the clearing systems***

Any Notes which are admitted to trading on a regulated market in the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be issued in minimum denominations of €100,000 (or the equivalent thereof in another currency at the time of issue) (the "**Specified Denominations**"). The relevant Final Terms may provide that, for so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes may be tradeable in minimum denominations of €100,000 and integral multiples of €1,000 thereafter (or the equivalent thereof in another currency at the time of issue), although if a Global Note is exchanged for a Definitive Note at the option of the relevant Noteholder, the Notes shall be tradeable only in principal amounts of at least €100,000. However, if Definitive Notes are required to be issued in accordance with the terms of the Notes, they will only be printed and issued in the Specified Denomination. In these circumstances, Noteholders holding Notes having a nominal amount which cannot be represented by a Definitive Note in the Specified Denomination will not be able to receive a Definitive Note in respect of such Notes and will not be able to receive interest or principal or be entitled to vote in respect of such Notes. As a result, a Noteholder who holds Notes in Euroclear or Clearstream, Luxembourg in an amount less than the Specified Denominations may need to purchase or sell, on or before the relevant date on which the Notes are to be exchanged for Definitive Notes, a principal amount of Notes such that the Noteholders hold the Notes in an aggregate principal amount of at least the Specified Denominations.

***Exchange rate risks and exchange controls***

The Bank will pay principal and interest on the Notes in the currency specified in the relevant Final Terms (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (a) the Investor's Currency-equivalent yield on the Notes; (b) the Investor's Currency-equivalent value of the principal payable on the Notes; and (c) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Bank or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Limited information with respect to the credit rating agencies and ratings is disclosed on the front cover of this Base Prospectus and, if a Tranche of Notes is rated, such rating will be disclosed in the relevant Final Terms.

***A downgrade in the Bank's credit ratings could limit its ability to negotiate new loan facilities or access the debt capital markets and may increase its borrowing costs and/or adversely affect its relationship with creditors***

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds. The interest rates of the Bank's borrowings are partly dependent on its credit ratings. As of the date of this Base Prospectus, the Bank has been rated by Moody's at Baa1, Fitch at A and S&P at BBB+. A downgrade of the Bank's credit ratings may increase its cost of borrowing and materially adversely affect its results of operations.

A downgrade of the Bank's credit ratings may also limit its or its subsidiaries' ability to raise capital. Moreover, actual or anticipated changes in the Bank's credit ratings or the credit ratings of the Notes (if applicable) generally may affect the market value of the Notes. In addition, ratings assigned to the Notes (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in this Base Prospectus and other factors may affect the value of the Notes.

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Bank may from time to time issue Notes denominated in any currency, subject as set out herein. Under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) (the "**Luxembourg Law**"), which implements the Prospectus Directive, prospectuses relating to money market instruments having a maturity at issue of less than 12 months and complying with the definition of securities are not subject to the approval provisions of Part II of such law.

An overview of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Bank and the relevant Dealer prior to the issue of such Notes and will be set out in the Conditions endorsed on, attached to, or incorporated by reference into, the Notes, as completed by the relevant Final Terms or as applicable, the relevant Pricing Supplement, attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Base Prospectus and any supplement to the Base Prospectus will only be valid for admitting Notes (other than Unlisted Notes) to trading on the regulated market of the Luxembourg Stock Exchange during the period of 12 months from the date of this Base Prospectus in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$5,000,000,000 or its equivalent in other currencies. The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement.

## OVERVIEW OF THE PROGRAMME

*This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the EEA no civil liability will attach to the Responsible Person in any such Member State solely on the basis of this overview, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the EEA, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. This general description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms or Pricing Supplement, as applicable. Capitalised terms used herein have the same meanings given to them in "Form of the Notes" and "Terms and Conditions of the Notes".*

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| **Issuer**: | Mashreqbank psc, a public shareholding company incorporated with limited liability in the United Arab Emirates. |
| **Description**: | Euro Medium Term Note Programme. |
| **Joint Arrangers**: | Merrill Lynch International and Morgan Stanley & Co. International plc. |
| **Dealers**: | Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreq Capital (DIFC) Ltd., Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, Nomura International plc, Société Générale, UBS Limited and any other Dealers appointed in accordance with the Dealership Agreement. |
| **Issuing and Principal Paying Agent**: | The Bank of New York Mellon, London Branch. |
| **Programme Amount**: | Up to U.S.$5,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealership Agreement. |
| **Risk Factors**: | There are certain factors that may affect the Bank's ability to fulfil its obligations under the Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme. These include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of a particular Series of Notes and certain market risks. See "*Risk Factors*". |
| **Issuance in Series**: | Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects. Each Tranche of Notes issued under the Programme will be subject to the approval and be authorised by a resolution of the Board of Directors of the Bank. |
| **Currencies**: | Subject to any applicable legal and/or regulatory and/or central bank restrictions, the Notes may be denominated in any currency agreed between the Bank and the relevant Dealer. |
| **Certain Restrictions**: | Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply |

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| | will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the restrictions applicable at the date of this Base Prospectus. |
| **Redenomination**: | The relevant Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 20 (*Redenomination, Renominalisation and Reconverting*). |
| **Maturities**: | Such maturities as may be agreed between the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant currency. |
| **Issue Price**: | Notes may be issued at any price and either on a fully-paid or a partly-paid basis. |
| **Form of Notes**: | Bearer Notes.<br><br>Each Tranche of Notes will initially be in the form of either a Temporary Global Note (as defined herein) or a Permanent Global Note (as defined herein), in each case as specified in the relevant Final Terms. Each Global Note (a "**Global Note**") will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. |
| **Interest**: | The Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate. In respect of each Tranche of Notes, the date from which interest becomes payable and the dates for interest, the maturity date, the repayment procedures and (in the case of Fixed Rate Notes only) an indication of yield will be specified in the applicable Final Terms. |
| **Redemption**: | The applicable Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer. |
| **Denomination of Notes**: | Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Note admitted to trading on a EEA Exchange or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or its equivalent in a relevant Specified Currency), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements relating to a Specified Currency; however, for so long as any Series of Notes is represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, such Series of Notes shall be tradeable in minimum denominations of €100,000 and integral multiples of €1,000 thereafter. If a Global Note is exchanged for a Definitive Note at the option of the Noteholders, the Notes shall be tradeable only in principal amounts of at |

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| | least €100,000. |
| **Taxation**: | All payments in respect of the Notes will be made free and clear of withholding taxes imposed by the UAE unless the withholding is required by law. In that event, the Bank will (subject as provided in Condition 11 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required. |
| **Negative Pledge**: | The terms of the Senior Notes will have the benefit of a negative pledge provision as described in Condition 5 (*Negative Pledge*). |
| **Cross Default**: | The terms of the Senior Notes will contain a cross default provision as described in Condition 12 (*Events of Default*). |
| **Status of the Notes**: | Notes may be issued on an unsubordinated or subordinated basis, as specified in the relevant Final Terms.<br><br>The Notes issued on an unsubordinated basis will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Bank and will rank *pari passu* among themselves and at least *pari passu* with the claims of the Bank's other unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured creditors save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application.<br><br>Notes issued on a subordinated basis will constitute direct, conditional and unsecured obligations of the Bank and rank *pari passu* among themselves. The payment obligations of the Bank in respect of Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Bank but will rank *pari passu* with all other subordinated payment obligations of the Bank which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Bank. |
| **Listing, Approval and Admission to Trading**: | Application has been made to the CSSF to approve this document as a base prospectus. The CSSF assumes no responsibility as to the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of Mashreqbank pursuant to Article 7(7) of the Luxembourg Law. Application has also been made for Notes (other than Unlisted Notes) issued under the Programme to be listed on the official list of the Luxembourg Stock Exchange. Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) of the European Parliament. The Notes (other than Unlisted Notes) may also be admitted to listing, trading and/or quotation on such other or further stock exchange(s), competent authorities and/or quotation systems as may be agreed between the Bank and the relevant Dealer in relation to each Series.<br><br>Unlisted Notes may also be issued.<br><br>The relevant Final Terms will state whether or not the relevant Notes are to be admitted to listing, trading and/or quotation and, if so, on which stock exchange(s), competent authorities and/or quotation systems. |
| **Rating**: | Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating(s) will not necessarily be the |

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| | same as the ratings assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable ratings and the credit rating agency issuing such ratings will be specified in the relevant Final Terms.<br><br>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.<br><br>In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). |
| **Governing Law**: | The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law (save for the subordination provisions therein, which are subject to the application of mandatory provisions of the laws and regulations of the UAE). |
| **Distribution**: | Notes will be issued on a syndicated or non-syndicated basis. |
| **Selling Restrictions**: | There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (see the Public Offer Selling Restrictions under the Prospectus Directive), the United Kingdom, the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan), Japan, Italy, the UAE (excluding the Dubai International Financial Centre) and the Dubai International Financial Centre and in such other jurisdictions as may be relevant in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*". |
| **United States Selling Restrictions**: | Regulation S, Category 2, TEFRA C or TEFRA D, as specified in the relevant Final Terms. |

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will initially be in the form of either a temporary global note (the "**Temporary Global Note**"), without interest coupons, or a permanent global note (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

The relevant Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement for each Tranche of Notes that have a maturity of more than 365 days will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor United States Treasury Regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA D Rules**") are applicable in relation to the Notes. For each Tranche of Notes that do not have a maturity of more than 365 days, regardless of when issued, the relevant Final Terms shall specify that the TEFRA C Rules and the TEFRA D Rules are not applicable.

All relevant information with respect to the Notes in a particular Tranche, including with respect to any reference or underlying securities relating to such Notes, will be set forth in the relevant Final Terms.

### Temporary Global Note exchangeable for a Permanent Global Note

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than the later of: (i) 40 days after the issue date of the relevant Tranche of the Notes; and (ii) the expiry of the period that ends 40 days after completion of the distribution of the relevant Tranche of Notes as certified by the relevant Dealer(s) to the Bank and the Issuing and Principal Paying Agent, and, in each case, upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Bank shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the specified office of the Issuing and Principal Paying Agent; and

(ii) receipt by the Issuing and Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; **provided**, **however**, **that** in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

**Exchange of Permanent Global Notes**

The Permanent Global Note will be exchangeable, upon notice, in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"):

(i) if the relevant Final Terms specify "in the limited circumstances described in the Permanent Global Note", then if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or in fact does so; or (b) any of the circumstances described in Condition 12 (*Events of Default*) occurs; or

(ii) if the Bank has or will become obliged to pay additional amounts as provided for or referred to in Condition 11 (*Taxation*), which would not be required were the Notes represented by the Permanent Global Note in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the specified office of the Issuing and Principal Paying Agent within 30 days of the bearer requesting such exchange.

In the event that a Permanent Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

**Temporary Global Note exchangeable for Definitive Notes**

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specify that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specify that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the specified office of the Issuing and Principal Paying Agent within 30 days of the bearer requesting such exchange.

The option for Temporary Global Notes to be exchangeable for Definitive Notes by giving notice should not be expressed to be applicable under paragraph 18 (*Bearer Notes*) of Part A of the relevant Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount. Furthermore, Notes should not be issued which have such denominations if such Notes are to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

**Clearing System Accountholders**

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Conditions to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common

depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Bank to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Bank in respect of payments due under the Notes and such obligations of the Bank will be discharged by payment to the bearer of the Global Note.

**Conditions applicable to Global Notes**

Each Global Note will contain provisions which modify the Conditions as they apply to the Global Note. The following is a overview of certain of those provisions:

***Payments***: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the specified office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Bank in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Bank shall procure that the same is noted in a schedule thereto.

***Payment Business Day***: in the case of a Global Note shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

***Exercise of put option***: In order to exercise the option contained in Condition 9(e) (*Redemption at the option of Noteholders (Investor Put)*), the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Issuing and Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

***Partial exercise of call option***: In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*) in relation to only some of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Bank in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

***Notices***: Notwithstanding Condition 18 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, **provided**, **however**, **that**, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu).

***Redenomination***: If the Notes are redenominated pursuant to Condition 20 (*Redenomination, Renominalisation and Reconverting*), then the Notes shall be deemed to be redenominated into euro converted at the rate for conversion of the Specified Currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however that**, if the Bank determines with the agreement of the Issuing and Principal Paying Agent that market practice in respect of the

redenomination into euro of internationally offered securities is different from that specified above, such market practice shall prevail.

***Tradeable Amounts***: So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant Clearing System(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of €1,000, notwithstanding that no definitive notes will be issued with a denomination above €199,000.

**Legend concerning United States persons**

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED."

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as completed by the relevant Final Terms or as applicable, the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Form of the Notes" above.*

*In the case of a Tranche of Notes which will not be admitted to listing, trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) in the European Economic Area and/or quotation by any competent authority, stock exchange and/or quotation system ("**Unlisted Notes**") and, accordingly, for which no base prospectus is required to be produced in accordance with Directive 2003/71/EC, as amended (including by Directive 2010/73/EU and includes any relevant implementing measure in a Relevant Member State) (the "**Prospectus Directive**"), a pricing supplement (a "**Pricing Supplement**") will be issued describing the final terms of such Tranche of Unlisted Notes. Each reference in these terms and conditions to "**Final Terms**" shall, in the case of a Tranche of Unlisted Notes, be read and construed as a reference to such Pricing Supplement unless the context requires otherwise.*

1. **Introduction**

(a) ***Programme***: Mashreqbank psc (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$5,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) ***Final Terms***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (in respect of a Tranche, together, the "**Final Terms**") which complete these terms and conditions (the "**Conditions**") (other than a Tranche of Unlisted Notes which is the subject of a pricing supplement). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement, the relevant Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement shall prevail.

(c) ***Agency Agreement***: The Notes are the subject of an amended and restated issue and paying agency agreement dated 22 December 2016 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Bank, The Bank of New York Mellon, London Branch as Issuing and Principal Paying Agent (the "**Issuing and Principal Paying Agent**", which expression includes any successor Issuing and Principal Paying Agent appointed from time to time in connection with the Notes), The Bank of New York Mellon SA/NV, Luxembourg Branch and the other paying agents named therein (together with the Issuing and Principal Paying Agent, the "**Agents**", which expression includes any successor or additional agents appointed from time to time in connection with the Notes).

(d) ***The Notes***: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms or (in the case of Unlisted Notes issued by the Bank) Pricing Supplement. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Issuing and Principal Paying Agent. References to the "**relevant Final Terms**" are to the Final Terms (or relevant provisions thereof) attached to or endorsed on the Notes.

(e) ***Deed of Covenant***: The Notes are the subject of a deed of covenant dated 22 December 2016 (the "**Deed of Covenant**") and made by the Bank. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg.

(f) ***Summaries***: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to its detailed provisions. Noteholders and Couponholders, if any, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are

available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents.

(g) ***Copies***: Copies of the Agency Agreement and the Deed of Covenant are obtainable during normal business hours at the Specified Office of each of the Paying Agents. Copies of the relevant Final Terms may be obtained, upon request, free of charge, from the registered office of the Bank and the Specified Offices of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive, the relevant Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Bank and the relevant Paying Agent as to its holding of such Notes and identity. If this Note is admitted to trading on the Luxembourg Stock Exchange's regulated market, the relevant Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the relevant Final Terms. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the relevant Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the relevant Final Terms, the relevant Final Terms will prevail.

2. **Definitions and Interpretation**

(a) ***Definitions***: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Amortisation Percentage**" means, in respect of each Interest Payment Date, the corresponding percentage figure specified in the relevant Final Terms;

"**Auditors**" means a firm of independent auditors of good repute appointed by the Bank;

"**Business Day**" means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Dubai and any Additional Business Centre specified in the relevant Final Terms;

(ii) either: (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which was launched on 19 November 2007, or any successor thereto (the "**TARGET2 System**") is open; and

(iii) in the case of Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the applicable RMB Settlement Centre(s) (as defined below);

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided**, **however**, **that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Issuing and Principal Paying Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning given thereto in the relevant Final Terms;

"**Coupon**" means an interest coupon pertaining to a Note;

"**Couponholder**" means the holder of a Coupon;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to such Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods normally ending in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of: (a) the actual number of days in such Regular Period; and (2) the number of Regular Periods normally ending in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and $D_1$ is greater than 29, in which case $D_2$ will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day inducted in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case $D_2$ will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the maturity date as set out in the Final Terms (the "**Maturity Date**"); or (ii) such number would be 31, in which case $D_2$ would be 30, **provided**, **however**, **that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**Early Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the applicable RMB Settlement Centre(s);

"**Group**" means the Bank, its holding company (if any) and the Subsidiaries of the Bank or of any such holding company for the time being;

"**Holder**" or "**Noteholder**" means the holder of a Note;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period (other than Adjusted RMB Fixed Rate Notes);

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as further amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.;

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Make Whole Redemption Amount**" means, with respect to any Note to which the Floating Rate Note Provisions apply, the principal amount of such Note multiplied by the applicable Amortisation Percentage relating to the Interest Payment Date on which such Note is to be redeemed in accordance with Condition 9(f) (*Regulatory Redemption Event*) and, in relation to any Note to which the Fixed Rate Note Provisions apply, the amount specified in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Material Subsidiary**" shall mean a Subsidiary of the Bank or of its holding company (if any) the book value of the assets of which exceeds five per cent. of the book value of the assets of the Group taken as a whole or the revenues of which exceed five per cent. of the revenues of the Group taken as a whole or the net income of which exceeds five per cent. of the net income of the Group taken as a whole and, for these purposes:

(i) the book value of the assets, the revenues and the net income of such Subsidiary shall be determined by reference to its then most recent audited annual financial statements (or, if none, its then most recent management accounts); and

(ii) the book value of the assets and the revenues of the Group shall be determined by reference to its then most recent audited annual consolidated financial statements,

in each case adjusted, as the Auditors may consider appropriate, to take account of any changes in circumstances since the date as of which such financial statements (or management accounts) were prepared.

A report of the Auditors that in their opinion a company or corporation is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Operating Revenue**" means, in relation to a Subsidiary of any Person, its total turnover for the most recent fiscal year as shown in such Person's latest audited or unaudited, as the case may be, consolidated accounts;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) in the case of Definitive Notes, a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) in the case of Definitive Notes, a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Security Interests**" means:

(i) any Security Interest granted upon or with regard to any asset or property hereafter acquired by the Bank or any Material Subsidiary to secure the purchase price of such property (and transactional expenses related to such acquisition) or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property (including interest accrued thereon) and transactional expenses related to such acquisition, including any Security Interest existing at the time of its acquisition (other

than a Security Interest) created in contemplation of such acquisition); **provided**, **however**, **that** the maximum sum secured by such Security Interest shall not exceed the U.S. dollar equivalent on the date of purchase of the purchase price of such property (including transactional expenses) or the U.S. dollar equivalent on the date of the incurrence of the Indebtedness (including interest accrued thereon) incurred solely for the purpose of financing the acquisition of such property (including transactional expenses);

(ii) any Security Interest arising in the ordinary course of the Bank's banking business or of the respective business activities of its Material Subsidiaries including, without limitation, sale and repurchase transactions and share, loan and bond lending transactions, **provided that** any such Security Interest is limited to the assets which are the subject of the relevant transaction;

(iii) any Security Interest in respect of any Indebtedness, **provided that** the aggregate outstanding amount secured thereby shall not at any time exceed an amount equal to 5 per cent. of the aggregate of the share capital and reserves of the Bank and its Subsidiaries, as provided in its most recent audited accounts;

(iv) any Security Interest created or outstanding with the prior approval by an Extraordinary Resolution of the Noteholders;

(v) any Security Interest in existence on the date hereof and any extension, renewal or replacement thereof; **provided**, **however**, **that** the total amount of Indebtedness so secured shall not exceed the U.S. dollar equivalent of the amount so secured on the date hereof; and

(vi) any Security Interest arising by operation of law and in the normal course of business, if such Security Interest is discharged within thirty days of arising;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided**, **however**, **that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means Sydney and, in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Prospectus Directive**" means Article 5.4 of Directive 2003/71/EC of 4 November 2003, as amended (including by Directive 2010/73/EU and any relevant implementing measure) in a relevant Member State of the EEA;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate Calculation Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the applicable RMB Settlement Centre(s), London and the principal financial centre of the country of the Relevant Currency;

"**Rate Calculation Date**" means the day which is two Rate Calculation Business Days before the due date of the relevant payment under the Notes;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount, the Make Whole Redemption Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"**Reference Banks**" means the four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" has the meaning given in the relevant Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Regulator**" means the Central Bank of the UAE, including any successor thereto as the relevant regulator of banks in the UAE;

"**Regulatory Redemption Event**" means, in respect of any Note, any change to any applicable regulatory rules or to the application or official interpretation thereof at any relevant time which has been previously announced in an official publication of the Regulator or of any other relevant governmental, regulatory or judicial body in the UAE and by reason of which such Note would not on the next Interest Payment Date thereafter be capable of being counted as Tier II (supplementary) Capital, **provided that** such Note has qualified as Tier II (supplementary) Capital at any time following the date on which it was issued;

"**Regulatory Redemption Event Period**" means the period from and including the Interest Commencement Date to and including the Step-Up Date;

"**Relevant Currency**" has the meaning given in the relevant Final Terms;

"**Relevant Date**" means, in relation to any payment, whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Issuing and Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Renminbi**" or "**RMB**" means the lawful currency for the time being of the People's Republic of China (the "**PRC**"), which, for these purposes, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 and the Bridge/Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Relevant Total Assets**" means, in relation to a Subsidiary of any Person, its total assets, less the aggregate of all receivables due from such Person or other subsidiaries of such Person and all intangible assets (including, without limitation, goodwill) as of the end of the most recent fiscal year as shown in such Person's latest annual audited consolidated accounts from time to time;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**RMB Currency Events**" means, with respect to any Notes where the Relevant Currency is Renminbi, any one of RMB Illiquidity, RMB Non-Transferability and RMB Inconvertibility;

"**RMB Illiquidity**" means the general RMB exchange market in the applicable RMB Settlement Centre(s) becomes illiquid as a result of which the Bank cannot obtain sufficient RMB in order to make a payment under the Notes, as determined by the Bank in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the RMB exchange market in the applicable RMB Settlement Centre(s);

"**RMB Inconvertibility**" means the occurrence of any event that makes it impossible for the Bank to convert any amount due in respect of the Notes into RMB on any payment date in the general RMB exchange market in the applicable RMB Settlement Centre(s), other than where such impossibility is due solely to the failure of the Bank to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation);

"**RMB Non-Transferability**" means the occurrence of any event that makes it impossible for the Bank to deliver RMB between accounts inside the applicable RMB Settlement Centre(s) or from an account inside the applicable RMB Settlement Centre(s) to an account outside the applicable RMB Settlement Centre(s) (including where the RMB clearing and settlement system for participating banks in the applicable RMB Settlement Centre(s) is disrupted or suspended), other than where such impossibility is due solely to the failure of the Bank to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation);

"**RMB Settlement Centre(s)**" means the financial centre(s) specified as such in the applicable Final Terms in accordance with applicable laws and regulations. If no RMB Settlement Centre is specified in the relevant Final Terms, the RMB Settlement Centre shall be deemed to be Hong Kong;

"**Security Interest**" means any mortgage, mortgage prenotation, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Senior Creditors**" means creditors of the Bank (including depositors), other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the Bank's subordinated and unsecured creditors, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application;

"**Senior Notes**" means Notes issued under the Programme on a senior or unsubordinated basis as described under Condition 4(a) (*Status of the Senior Notes*);

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms save that the minimum denomination of each Note will be euro 100,000 (or its equivalent in a relevant Specified Currency);

"**Specified Office**" of any Agent means the office specified against its name in the Agency Agreement or any other address as the Agent has, by prior written notice to the sender, specified for the relevant purpose;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Spot Rate**" means the spot RMB/Relevant Currency exchange rate for the purchase of the Relevant Currency with Renminbi in the over-the-counter Renminbi exchange market in the applicable RMB Settlement Centre(s) for settlement in two Rate Calculation Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (local time at the applicable RMB Settlement Centre(s)) on the Rate Calculation Date, on a deliverable basis by reference to the Relevant Spot Rate Screen Page (Deliverable Basis) (as specified in the relevant Final Terms), or if no such rate is available, on a non-deliverable basis by reference to the Relevant Spot Rate Screen Page (Non-deliverable Basis) (as specified in the relevant Final Terms). If neither rate is available, the Calculation Agent shall determine the rate taking into consideration all available information which the Calculation Agent deems relevant, including pricing information obtained from the Renminbi non-deliverable exchange market in the applicable RMB Settlement Centre(s) or elsewhere and the RMB/Relevant Currency exchange rate in the PRC domestic foreign exchange market;

"**Step-Up Date**" means the fifth anniversary of the Issue Date of the Notes;

"**Subordinated Notes**" means Notes issued under the Programme on a subordinated basis as described under Condition 4(b) (*Status of the Subordinated Notes*);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**Tier II (supplementary) Capital**" has the meaning set out in Circular 13/93 relating to Capital Adequacy published on 14th April, 1993 by the Regulator (as the same may be supplemented, amended and/or replaced from time to time);

"**TARGET Settlement Day**" means any day on which the TARGET2 System is open;

"**Treaty**" means the Treaty establishing the European Communities, as amended;

"**Unlisted Notes**" means Notes issued under the Programme for which no base prospectus is required to be published under the Prospectus Directive; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 11 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

## 3. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination. Notes are issued in the Specified Denomination(s), except that the minimum denomination of each Note admitted to trading on a EEA Exchange or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be euro 100,000 (or its equivalent in a relevant Specified Currency), and save for Zero Coupon Notes, Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Subject as set out below, title to Notes and Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof). But, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph, no Person shall be liable for so treating such Holder.

The Notes are Senior Notes or Subordinated Notes as specified in the relevant Final Terms.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Bank and the Agents as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Bank and any Agent as the holder of such principal amount of such Notes in accordance

with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**", "**Holder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

So long as Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant Clearing System(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the tradeable amount in excess thereof as specified in the relevant Final Terms.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the relevant Final Terms or as may otherwise be approved by the Bank and the Issuing and Principal Paying Agent.

4. **Status of the Notes**

(a) ***Status of the Senior Notes***: Notes issued on a senior or unsubordinated basis, as specified in the relevant Final Terms ("**Senior Notes**"), are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Bank and rank *pari passu* among themselves and at least *pari passu* with the claims of the Bank's unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured creditors, from time to time outstanding, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application.

(b) ***Status of the Subordinated Notes***: Notes issued on a subordinated basis, as specified in the relevant Final Terms ("**Subordinated Notes**"), are direct, conditional as described below and unsecured obligations of the Bank and rank *pari passu* among themselves. The payment obligations of the Bank in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Bank in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Bank which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Bank. The rights of the holders of the Subordinated Notes against the Bank are subordinated in right of payment to the claims of all Senior Creditors of the Bank and accordingly payments in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) by the Bank are conditional upon the Bank being solvent at the time of such payment and no payment shall be payable by the Bank in respect of the Subordinated Notes except to the extent that the Bank could make such payment and any other payment required to be made to a creditor in respect of indebtedness which ranks or is expressed to rank *pari passu* with the Subordinated Notes and still be solvent immediately thereafter. For this purpose, the Bank shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its assets exceed its liabilities. Each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, counter-claim, abatement or other similar remedy, which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Bank shall not secure the payment obligations under the Subordinated Notes.

5. **Negative Pledge**

This Condition 5 applies only to Senior Notes.

So long as any Note shall remain outstanding, the Bank shall ensure that neither the Bank nor any of its Material Subsidiaries shall create or suffer to exist any Security Interest (other than Permitted Security Interests) on or with respect to any of its undertakings, assets, properties or revenues, whether now owned or hereafter acquired to secure any Specified Indebtedness of the Bank or any Material Subsidiary or any obligation, whether actual or contingent, of the Bank or

any Material Subsidiary under the guarantee of, or indemnity in respect of, Specified Indebtedness of others without at the same time or prior thereto: (i) securing the Notes equally and rateably therewith; or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

For the purposes of these Conditions, "**Specified Indebtedness**" means any loan or indebtedness either of which is in the form of, or is represented by, bonds, notes, debentures or other securities which are, or are intended to be, or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other established securities market.

6. **Fixed Rate Note Provisions**

(a) ***Application***: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes (other than where the Specified Currency is Renminbi and the relevant Final Terms specifies a Business Day Convention to be applicable) bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*) as applicable. In the case of a Fixed Rate Note where the Relevant Currency is RMB and the relevant Final Terms specifies a Business Day Convention to be applicable (an "**Adjusted RMB Fixed Rate Note**"), each Interest Payment Date (and, accordingly, the relevant Calculation Period) will be adjusted (if required) in accordance with the relevant Business Day Convention. Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The Adjusted RMB Fixed Rate Notes bear interest on their outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. For this purpose, "**Interest Payment Date**" means the Interest Payment Date(s) specified as such in the relevant Final Terms as adjusted in accordance with the applicable Business Day Convention. The amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such Interest Payment Date will be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of that Adjusted RMB Fixed Rate Note by the applicable Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards. Each such calculation will be made by the Calculation Agent. For this purpose, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified and in respect of the Calculation Periods relating to Adjusted RMB Fixed Rate Notes shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(e) ***RMB Currency Event***: If "RMB Currency Event" is specified as being applicable in the relevant Final Terms and a RMB Currency Event, as determined by the Bank acting in good faith and in a commercially reasonable manner, exists on a date for payment of any amount in respect of any Bearer Note or Coupon, the Bank's obligation to make a payment in RMB under the terms of the Bearer Notes may be replaced by an obligation to pay such amount in the Relevant Currency (as specified in the relevant Final Terms) converted using the Spot Rate for the relevant Rate Calculation Date. Upon the occurrence of a RMB Currency Event, the Bank shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 (*Notices*) stating the occurrence of the RMB Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

(f) ***RMB account***: Notwithstanding the foregoing, all payments in respect of any Bearer Note or Coupon in Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in the applicable RMB Settlement Centre(s) in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in the applicable RMB Settlement Centre(s)

7. **Floating Rate Note Provisions**

(a) ***Application***: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Screen Rate Determination***: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where;

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

***provided, however, that*** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided**, **however**, **that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate (or as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) ***ISDA Determination***: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either: (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period; or (B) in any other case, as specified in the relevant Final Terms;

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period;

***provided, however, that*** if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount and multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Bank, the Paying Agents and each stock exchange (if any) on which the Notes are then listed as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(h) ***Notifications etc***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

(a) **Application**: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the

Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Redemption and Purchase**

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments*).

(b) ***Redemption for tax reasons***: The Notes may be redeemed (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at the option of the Bank in whole, but not in part:

(i) at any time (if the Floating Rate Note Provisions are specified in the relevant Final Terms as not being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable);

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if: (1) the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws (or any regulations, rulings or other administrative pronouncements promulgated thereunder) of the UAE or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, regulations, rulings or other administrative pronouncements, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes or any other date specified in the Final Terms; and (2) such obligation cannot be avoided by the Bank taking reasonable measures available to it,

**provided**, **however**, **that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Bank shall deliver or procure that there is delivered to the Issuing and Principal Paying Agent a certificate signed by a duly authorised officer of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred and an opinion of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Bank shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) ***Redemption at the option of the Bank (Issuer Call)***: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Bank in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Bank's giving: (i) not less than 15 nor more than 30 days' notice to the Noteholders; and (ii) not less than 15 days before the giving of notice to the Noteholders, notice to the Agent (which notices shall be irrevocable and shall oblige the Bank to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) ***Partial redemption***: If Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Issuing and Principal Paying Agent approves and in such manner as the Issuing and Principal Paying Agent considers appropriate, subject to compliance with applicable law and the rules of each stock exchange on which the Notes are then listed, and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) This Condition 9(e) is applicable to Senior Notes only.

*Redemption at the option of Noteholders (Investor Put)*: If the Put Option is specified in the relevant Final Terms as being applicable, the Bank shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e), the Holder of a Note must, not less than 15 nor more than 30 days before the relevant Optional Redemption Date (Put), deposit with any Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Agent. The Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e), may be withdrawn; **provided**, **however**, **that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Agent in accordance with this Condition 9(e), the depositor of such Note and not such Agent shall be deemed to be the holder of the Note for all purposes.

(f) This Condition 9(f) is applicable to Subordinated Notes only.

*Regulatory Redemption Event*: The Bank may, at any time during the Regulatory Redemption Event Period, redeem the Notes in whole, but not in part, at its option on any Interest Payment Date following the occurrence of a Regulatory Redemption Event at a redemption price equal to the relevant Make Whole Redemption Amount of the Notes on giving not less than 15 nor more than 30 days' notice (which notice shall be irrevocable and shall specify the date fixed for redemption) to the Noteholders. Prior to the giving of any notice of redemption pursuant to this Condition 9(f), the Bank shall deliver to the Issuing and Principal Paying Agent a certificate signed by two Directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right to redeem have occurred.

(g) ***No other redemption***: The Bank shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.

(h) ***Early redemption of Zero Coupon Notes***: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(h) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) ***Purchase***: The Bank or any of its Subsidiaries may (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(j) ***Treatment of Notes purchased by the Bank or any of its Subsidiaries***: All Notes purchased by the Bank or any of its Subsidiaries may, if the Bank so elects, be cancelled. Any Notes so cancelled may not be reissued or resold. The Notes so purchased, while held by or for the account of the Bank or any of its Subsidiaries, shall not entitle their holder to vote at any meeting of Noteholders of any series and shall not be deemed outstanding for the purpose of calculating a quorum at a Noteholders' meeting of any series or for the purposes of Condition 12 (*Events of Default*) and Condition 16 (*Meetings of Noteholders; Modifications and Waiver*).

(k) ***Treatments of Notes redeemed by the Bank or any of its Subsidiaries***: All Notes redeemed by the Bank or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold and the obligations of the Bank in respect of any such Notes shall be discharged.

10. **Payments**

(a) ***Principal***: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if so permitted by paragraph (c) below) by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) ***Interest***: Payments of interest shall, subject to paragraph (g) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States and its possessions (or in New York City if so permitted by paragraph (c) below) in the manner described in paragraph (a) above.

(c) ***Payments in New York City***: Notwithstanding paragraph (a) above, payments of principal or interest may be made at the Specified Office of an Agent in New York City if: (i) the Bank has appointed Agents outside the United States with the reasonable expectation that such Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due; (ii) payment of the full amount of such interest at the offices of all such Agents is illegal or effectively precluded by exchange controls or other similar restrictions; and (iii) payment is permitted by applicable United States law without involving, in the opinion of the Bank, any adverse tax consequences to the Bank.

(d) ***Payments subject to fiscal laws***: All payments in respect of the Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided**, **however**, **that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided**, **however**, **that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void***: If the relevant Final Terms specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*), Condition 9(e) (*Redemption at the option of Noteholders (Investor Put*)), Condition 9(f) (*Regulatory Redemption Event*) or Condition 12 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Agent outside the United States (or in New York City if permitted by paragraph (c) above) and the UAE.

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such

Coupon Sheet may be exchanged at the Specified Office of the Issuing and Principal Paying Agent or at the office of the Paying Agent in Luxembourg for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 13 (*Prescription*). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. **Taxation**

(a) ***Gross up***: All payments of principal and interest in respect of the Notes and the Coupons (if any) by or on behalf of the Bank shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the UAE or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders (if relevant) after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable:

(i) where the relevant Noteholder or Couponholder (if relevant) is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed other than the mere holding of such Note or Coupon or the receipt of interest or principal in respect thereof;

(ii) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Note for payment less than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day;

(iii) with respect to any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge;

(iv) with respect to any payment of principal of or interest on any Note or Coupon to any Holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note or Coupon;

(v) to, or to a third party on behalf of, a Noteholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(vi) with respect to any combination of any of the foregoing.

(b) ***Taxing jurisdiction***: If the Bank becomes subject at any time to any taxing jurisdiction other than the UAE references in these Conditions to the UAE shall be construed as references to the UAE and/or such other jurisdiction.

12. **Events of Default**

If, in the case of Senior Notes, any one or more of the following events (each an "**Event of Default**") shall have occurred and be continuing or, in the case of Subordinated Notes, any one or more of the events specified in (a), (d), (e), (f), (g) or (k) shall have occurred and be continuing:

(a) the Bank fails to pay any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven Business Days in the case of principal and fourteen Business Days in the case of interest;

(b) the Bank is in default in the performance of any of its obligations (other than to make payments in respect of the Notes) contained in the Conditions, and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) such default shall continue for more than 30 days after written notice requiring such default to be remedied shall have been given to the Bank;

(c) any payment obligation under Indebtedness of the Bank or any Material Subsidiary becomes due and repayable prior to its stated maturity or the Bank or any Material Subsidiary fails to make any payment in respect of any Indebtedness within 30 days of the due date for payment (or within the applicable grace period, if such period is longer than 30 days) or any security given by the Bank or any Material Subsidiary for any Indebtedness becomes enforceable or if default is made by the Bank or any Material Subsidiary in making any payment due under any guarantee and/or indemnity given by it in relation to any obligation of any other person for 30 days (or within the applicable grace period if such period is longer than 30 days (save where such default is being actively contested in good faith by the Bank or any Material Subsidiary)), **provided that** no such event shall constitute an Event of Default unless the Indebtedness or other relative liability either alone or when aggregated with other Indebtedness and/or liabilities relative to all (if any) other events which shall have occurred and be outstanding shall amount to at least U.S.$20,000,000 (or its equivalent in any other currency);

(d) the Bank or any Material Subsidiary takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, dissolution, administration or re-organisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets and such proceedings are not frivolous or vexatious or are not being actively contested in good faith by the Bank or, as the case may be, such Material Subsidiary save, in the case of the Bank, for the purposes of reorganisation on terms approved by an Extraordinary Resolution or, in the case of a Material Subsidiary: (i) for the purposes of a solvent consolidation, amalgamation or restructuring, pursuant to which some or all the assets of such Material Subsidiary are transferred to any one or more members of the Group; or (ii) for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution **provided that** a *bona fide* disposal for full value on an arm's length basis of the whole or a substantial part of the business of the Bank or a Material Subsidiary shall not be deemed in any event to be an Event of Default for the purposes of this sub-paragraph;

(e) if the Bank ceases to carry on the whole or a part of its business representing at least 15 per cent. of the property, undertaking or assets of the Bank (calculated by reference to the latest audited consolidated financial statements of the Bank), save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution **provided that** a *bona fide* disposal for full value on an arm's length basis of the whole or a substantial part of the business of the Bank shall not be deemed in any event to be an Event of Default for the purposes of this sub-paragraph;

(f) the Bank is unable to pay its debts as they fall due, commences negotiations with its creditors as a whole or any one or more classes of its creditors with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors; or

(g) any execution or distress is levied against, or an encumbrancer takes possession of the whole or 15 per cent. or more of the property, undertaking or assets of the Bank (calculated by reference to the latest audited consolidated financial statements of the Bank) or any event occurs which under the laws of any jurisdiction has a similar or analogous effect, unless such enforcement proceedings are frivolous or vexatious or are being actively contested in good faith by the Bank; or

(h) the Bank or any Material Subsidiary fails to comply with or pay any sum which amount shall not be less than U.S.$10,000,000 due from it under any final non-appealable judgment or any final non-appealable order made or given by any court of competent jurisdiction and such failure continues for a period of 30 days next following the service by any Noteholder on the Bank of notice requiring the same to be paid/remedied; or

(i) by or under the authority of any government, (i) the management of the Bank or any Material Subsidiary is wholly or partially displaced or the authority of the Bank or any Material Subsidiary in the conduct of its business is wholly or partially curtailed or (ii) all or a majority of the issued shares of the Bank or any Material Subsidiary or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

(j) if at any time it is or becomes unlawful for the Bank to perform or comply with any or all of its obligations under or in respect of the Notes or any of the material obligations of the Bank thereunder are not or cease to be legal, valid, binding and enforceable; or

(k) if any event occurs which is analogous to any of the events in the foregoing paragraphs (d) to (g) or (i) then,

(i) any Noteholder may, by written notice to the Bank at the Specified Office of the Agent, effective upon the date of receipt thereof by the Agent, declare the Note held by such Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Termination Amount together with accrued interest, if any, to the date of repayment, and any additional amounts as provided or referred to in Condition 11 (*Taxation*) due thereon without presentment, demand, protest or other notice of any kind; and (ii) in relation to Subordinated Notes only, on the occurrence of an event of the kind specified in paragraph (a), any Noteholder may institute proceedings in the UAE or any emirate therein (but not elsewhere) for the dissolution and liquidation of the Bank.

For the purposes of these Conditions:

A "**holding company**" of a company or corporation shall be construed as a reference to any company or corporation of which the first-mentioned company or corporation is a Subsidiary.

The "**winding-up**", "**dissolution**" or "**administration**" of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

## 13. Prescription

Claims against the Bank for payment of principal and interest in respect of the Notes will be prescribed and become void unless made, in the case of principal, within 10 years or, in the case of interest, five years after the Relevant Date.

## 14. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Issuing and Principal Paying Agent (and, if the Notes are then listed on any stock exchange the rules of which require the appointment of an Agent in any particular place, the Paying Agent having its Specified Office in the place required by such stock exchange), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note or Coupon is subsequently presented for payment or, or as the case may be, for exchange for further Coupons, there will be paid to the Bank on demand the amount payable by the Bank in respect of such Notes, Coupons or further Coupons) and otherwise as the Bank may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 15. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are set out in the Agency Agreement. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Issuing and Principal Paying Agent or Calculation Agent and additional or successor paying agents; **provided**, **however**, **that**:

(a) the Bank shall at all times maintain an Issuing and Principal Paying Agent;

(b) if a Calculation Agent is specified in the relevant Final Terms, the Bank shall at all times maintain a Calculation Agent; and

(c) if and for so long as the Notes are listed on any stock exchange the rules of which require the appointment of a Paying Agent in any particular place, the Bank shall maintain a Paying Agent having its Specified Office in the place required by the rules of such stock exchange.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 18 (*Notices*).

16. **Meetings of Noteholders; Modification and Waiver**

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Bank and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than one half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided**, **however**, **that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***: The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Bank shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the sole opinion of the Bank, not materially prejudicial to the interests of the Noteholders.

17. **Further Issues**

The Bank may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes and references in these Conditions to "Notes" shall be construed accordingly.

18. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) and, so long as the Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the

Luxembourg Stock Exchange (www.bourse.lu), in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

19. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms): (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.); (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up); (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount; and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

20. **Redenomination, Renominalisation and Reconverting**

(a) ***Application***: This Condition 20 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

(b) ***Redenomination***: If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Bank may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date, being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State, with effect from which date the Notes shall be deemed to be redenominated into euro at the rate for conversion of the Specified Currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided**, **however**, **that**, if the Bank determines with the agreement of the Issuing and Principal Paying Agent that market practice in respect of the redenomination of internationally offered securities is different from that specified above, such market practice shall prevail and the Bank shall promptly notify the Noteholders and Couponholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of the conversion provisions to be applied.

21. **Governing Law and Jurisdiction**

(a) ***Governing Law***: The Agency Agreement, the Deed of Covenant and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save for the subordination provisions of the Notes which are subject to the application of mandatory provisions of the laws and regulations of the UAE.

(b) ***Submission to Jurisdiction***: The Bank hereby irrevocably agrees for the exclusive benefit of the Noteholders and the Couponholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes and the Coupons (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts and waives any objection to the exercise of such jurisdiction.

(c) ***Notice of Dispute***: If any Noteholder or Couponholder considers that there is a Dispute, it shall within 14 days notify the Bank in writing of the existence of such Dispute.

(d) ***Arbitration***: Without limiting the rights of the Noteholders and Couponholders under Condition 21(b) (*Submission to Jurisdiction*), any Dispute (including any Dispute regarding the existence, validity or termination of the Notes and/or the Coupons) may be referred by any Noteholder or Couponholder to arbitration in London in accordance with the rules of the London Court of

International Arbitration (the "**Rules**") and the Rules shall apply *mutatis mutandis* as if they had been set out in full in this Condition 21(d). The place of arbitration shall be London, England and there shall be three arbitrators each of whom shall be disinterested in the arbitration and shall have no connection with any party thereto. Each party shall nominate one arbitrator for appointment by the London Court of International Arbitration court and the third arbitrator, who shall act as chairman, shall be jointly nominated by the other arbitrators so nominated and appointed by the London Court of International Arbitration court. The language of the arbitration and award shall be English. If any Noteholder or Couponholder wants to exercise the option of arbitration, it shall do so within 14 days of sending notice of the existence of a Dispute to the Bank pursuant to Condition 21(c) (*Notice of Dispute*).

(e) ***Service of Process***: The Bank agrees that the process by which any Proceedings or Disputes are begun may be served on it by being delivered to Clifford Chance Secretaries Limited at its principal place of business for the time being in England currently 10 Upper Bank Street, London, E14 5JJ. If such person is not or ceases to be effectively appointed to accept service of process on the Bank's behalf, the Bank shall appoint a further person in England to accept service of process on their behalf. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

(f) ***Waiver of Immunity***: The Bank irrevocably agrees that, should any Proceedings or Disputes be taken anywhere (whether for any injunction, specified performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Bank irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings or Disputes, attachment or execution in respect of its obligations under these Conditions.

(g) ***Consent to Enforcement***: The Bank irrevocably and generally consents in respect of any Proceedings or Disputes anywhere to the giving of any relief or the issue of any process in connection with those Proceedings or Disputes including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings or Disputes.

(h) ***No Third Party Rights***: No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

## USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes.

## SELECTED FINANCIAL INFORMATION

The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of the Bank and its subsidiaries and the other information included elsewhere in this Base Prospectus.

The following table sets forth selected consolidated financial information of the Bank for the years ended 31 December 2016 and 31 December 2015 as extracted from the Bank's audited annual consolidated financial statements for the respective periods and unaudited interim consolidated financial statements for the nine month periods ended 30 September 2016 and 30 September 2017, in each case prepared in accordance with International Financial Reporting Standards ("**IFRS**").

| | As at and for the nine months ended 30 September 2017 | As at and for the nine months ended 30 September 2016 | As at and for the year ended 31 December 2016 | As at and for the year ended 31 December 2016 | As at and for the year ended 31 December 2015 |
|---|---|---|---|---|---|
| | *(in AED Thousands)* | | *(in U.S.$ Thousands)* | *(in AED Thousands)* | |
| **Selected balance sheet data:** | | | | | |
| Cash and balances with central banks | 13,623,213 | 16,734,939 | 5,072,034 | 18,629,582 | 19,423,463 |
| Deposits and balances due from banks | 18,922,564 | 15,326,885 | 5,082,426 | 18,667,750 | 15,009,990 |
| Loans and advances (net) | 55,541,093 | 54,277,592 | 14,546,273 | 53,438,461 | 53,555,070 |
| Islamic financing and investment products measured at amortised cost | 9,103,908 | 8,019,497 | 2,059,641 | 7,565,063 | 6,610,606 |
| Investments (net) [1] | 14,604,482 | 14,740,972 | 3,754,250 | 13,789,361 | 12,445,562 |
| Total assets | 121,753,198 | 119,624,463 | 33,436,845 | 122,813,536 | 115,157,181 |
| Deposits and balances due to banks | 7,126,204 | 8,078,308 | 2,431,820 | 8,932,076 | 9,231,913 |
| Customers' deposits[2] | 76,099,059 | 75,275,938 | 20,974,818 | 77,040,507 | 73,635,280 |
| Total equity | 20,628,299 | 19,213,047 | 5,305,103 | 19,485,645 | 18,485,728 |
| **Selected income statement data:** | | | | | |
| Net interest income and income from Islamic products net of distribution to depositors | 2,608,475 | 2,512,132 | 915,427 | 3,362,367 | 3,261,789 |
| Net fee and commission income | 1,176,457 | 1,292,808 | 458,664 | 1,684,673 | 1,724,408 |
| Net investment income | 165,963 | 223,162 | 71,472 | 262,517 | 169,106 |
| Other income, net | 484,273 | 636,499 | 233,887 | 859,068 | 822,202 |
| General and administrative expenses | (1,756,233) | (1,786,695) | (655,241) | (2,406,701) | (2,472,527) |
| Profit for the year before non-controlling interests | 1,692,687 | 1,512,147 | 531,965 | 1,953,911 | 2,434,645 |
| Profits attributable to equity holders of the parent | 1,664,470 | 1,486,181 | 524,479 | 1,926,412 | 2,402,107 |
| **Selected ratios (in per cent.):** | | | | | |
| Return on average assets[3] | 1.8 | 1.69 | 1.62 | 1.62 | 2.17 |
| Return on average equity[4] | 11.1 | 10.51 | 10.15 | 10.15 | 13.57 |
| Net loans to customer deposit ratio | 85.0 | 82.8 | 79.2 | 79.2 | 81.71 |
| Equity to asset ratio | 16.94 | 16.06 | 15.87 | 15.87 | 16.05 |

Notes:

(1) Investments (net) are the sum of the line items "Other financial assets measured at fair value", "Other financial assets measured at amortised cost" and "Investment properties" appearing in the Bank's consolidated statements of financial position for each relevant period.

(2) Customers' deposits are the sum of the line items "customers' deposits" and "Islamic customers' deposits" appearing in the Bank's consolidated statements of financial position for each relevant period.

(2) For calculating return on average assets only profit attributable to equity holders of parent has been considered.

(3) For calculating return on average equity only profit attributable to equity holders of parent has been considered.

## ALTERNATIVE PERFORMANCE MEASURES

The Bank considers that the following metrics reference in this Base Prospectus constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines ("**ESMA Guidelines**") on Alternative Performance Measures:

| APM | Definition of APM | Method of Calculation |
|---|---|---|
| **Gross non-performing loans to gross loans ratio** | Non performing loans to total gross loans ratio is calculated by using the value of nonperforming loans ("**NPLs**") as the numerator and the total value of the loan portfolio (including NPLs, and before the deduction of specific loan-loss provisions) as the denominator. It is often used as a proxy for asset quality and is intended to identify problems with asset quality in the loan portfolio. | (NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended) divided by (Gross Loans (loans and advances plus islamic financing and investment products minus unearned income) minus interest/profit suspended). |
| **Loan loss coverage ratio** | Loan loss coverage ratio is a financial measure which is used to determine how well a bank has prepared for losses on its loan portfolio. | Specific allowance for impairment for loans and advances minus interest/profit suspended divided by NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended. |
| **Return on average assets** | Return on assets ("**ROA**") is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. | Profits attributable to owners of the parent divided by average total assets ((total assets at the beginning of the year plus total assets at the end of the year) divided by 2). |
| **Return on average equity** | Return on average equity is an adjusted version of return on equity ("**ROE**"), which measures profitability by revealing profit generated from the money shareholders have invested and where the denominator is average shareholders' equity. | Profits attributable to owners of the parent divided by average total equity (total equity at the beginning of the year plus total equity at the end of the year divided by two). |
| **Net loans to customer deposit ratio** | The loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. | Net Loans and Advances (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits (customer deposits plus Islamic customer deposits). |

| | | |
|---|---|---|
| **Net loans to customer deposit ratio and medium term loan** | This measures how much of customer deposits and medium term loans in deployed in loans. This also measures the liquidity aspect of bank. | Net Loans (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits (customer deposits plus Islamic customer deposits) and Medium-Term Loans. |
| **Equity to asset ratio** | The shareholder equity ratio determines how much shareholders would receive in the event of a company-wide liquidation. Equity to asset ratio represents the amount of assets on which shareholders have a residual claim. | Total Equity divided by Total Assets. |
| **Customer deposits to total funding base ratio** | Banks count on customer deposits as a stable source of funds for their lending base. Deposits offer many advantages to banks, such as predictable costs and a measurement of the degree of customer loyalty. | Total customer deposits (customer deposits plus Islamic customer deposits) divided by Funding Base (total liabilities minus other liabilities minus Insurance and Life assurance funds plus paid up capital). |
| **Net loans to total assets ratio** | Net loans to total assets ratio is a percentage of assets tied up in loans. The higher the ratio, less liquid the bank is. Net loans represent total loans reduced by provision and interest in suspense. | Net Loans (loans and advances at amortised cost plus Islamic financing and investment products at amortised cost) divided by Total Assets. |

## DESCRIPTION OF THE BANK

### History and overview of the Bank

The Bank is the oldest domestic commercial bank in the UAE and was incorporated by a decree of His Highness the Ruler of Dubai as a public shareholding company in the Emirate of Dubai in May 1967. The Bank operates within UAE and is registered with the Companies' Register of the Securities and Commodities Authority of the UAE under registration number 57. The Bank changed its name to Mashreqbank, from Bank of Oman Limited in 1993 and, as at 30 September 2017, was the fifth largest local commercial bank in the UAE in terms of total assets (see further "*Description of the Bank – Competition – Ranking by Total Assets*"). The head office of the Bank is located at Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE. The Bank is regulated by the UAE Central Bank.

The Bank, through its head office in Dubai, operates a network of 50 branches in the UAE, 21 international branches (ten in Egypt, five in the State of Qatar, one branch in each of the Kingdom of Bahrain, the United States, the State of Kuwait, the United Kingdom, India and Hong Kong) and three representative offices (in Bangladesh, Pakistan and Nepal), as at 30 September 2017.

The Bank also operates 10 subsidiaries (seven in the UAE, two in the Kingdom of Bahrain and one in the Cayman Islands), as at 30 September 2017, which provide services such as insurance, securities brokerage, consumer finance, asset management, investment management, business processing outsourcing (i.e. back office operations) and information technology.

The Bank's core businesses are retail banking, corporate and investment banking, international banking and treasury and capital markets. The Bank offers a diverse range of products and services including trade finance, contract finance, project finance, deposit taking, consumer lending, credit cards, wealth management, electronic funds transfer at points-of-sale, ATMs, call centres, treasury, correspondent banking, online banking and mobile banking. To further enhance its offering, the Bank established an Islamic Banking division offering *Shari'a* compliant financing in November 2006.

The Bank has achieved growth in operating income, increasing from AED 5,978 million for the year ended 31 December 2015 to AED 6,169 million for the year ended 31 December 2016, corresponding to an annual growth rate of 3.2 per cent. A corresponding increase has also been seen in the Bank's total assets, which increased from AED 115,157 million as at 31 December 2015 to AED 122,814 million as at 31 December 2016, representing an annual growth rate of 6.7 per cent. The Bank's total assets decreased during the first nine months of 2017 and, as at 30 September 2017, were AED 121,753 million.

The Bank's total loans and advances, including Islamic financing, to customers (net of impairment allowances) as at 30 September 2017 were AED 64,645 million, compared to AED 60,934 million as at 31 December 2016 and AED 60,166 million as at 31 December 2015. The Bank's customer deposits as at 30 September 2017 were AED 76,099 million, compared to AED 77,041 million as at 31 December 2016 and AED 73,635 million as at 31 December 2015.

As at 30 September 2017, approximately 88.05 per cent. of the capital of the Bank is owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them, with the balance of the capital being held publicly. The Bank's shares are listed and traded on the Dubai Financial Market.

### Strategy

The Bank caters to a wide range of customer segments by offering a comprehensive suite of products and services. At the core of the Bank's strategy is its commitment to providing excellent customer service and focusing on innovation.

The Bank introduced a strategic growth plan in 2014 and 2017 saw the fourth year of its implementation. This will play an important role in providing strategic guidance and driving the business growth of the Bank. The nine levers essential to the delivery of the plan are:

- **Become a primary bank -** offering a single-window solution at the best value to customers, tied in with a customer-centric approach to enhance customer loyalty and to increase customer acquisition and market share.

- **Enhance the brand -** improved perception of the Bank's service and brand to enhance customer loyalty.

- **Foster innovation and drive digital transformation –** innovation amongst products, offerings and processes to enhance employee efficiency and engagement and pursue digital initiatives both externally (customer facing) and internally (through internal processes and systems).

- **Strategic cost management and middle office rationalisation** – actively eliminate waste and increase efficiencies with an objective of improving the cost to income ratio.

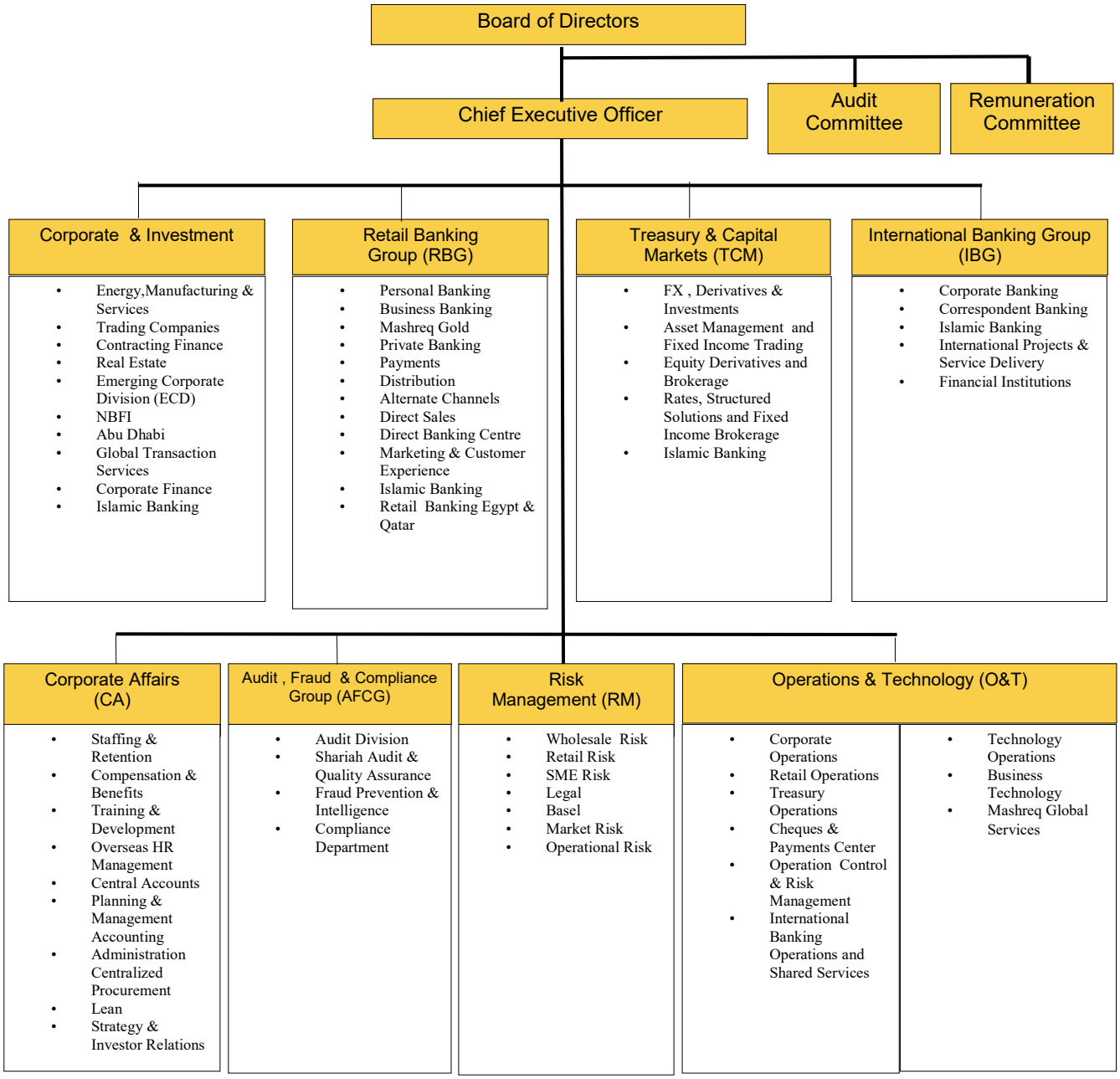
- **Enhance human capital -** along with a continued emphasis on remaining an employer of choice, the Bank believes that developing the workforce will be a long term critical success factor.

- **Focus on service excellence and customer experience –** enhance the customer experience by adhering to the concept of service excellence.

- **Further leverage Islamic banking opportunities –** capitalise on Islamic banking opportunities by leveraging the Bank's existing capabilities.

- **Ethical, regulatory, internal policy compliance and zero tolerance** – operate under a regime of zero tolerance for deviations from ethical, regulatory and internal policy standards and guidelines.

The following chart sets out the Bank's organisational structure.



**Description of the Bank's business**

The Bank divides its business into four business groups: domestic corporate, domestic retail, treasury and capital markets, and international banking.

***Domestic corporate***

As a primary delivery channel for corporate banking products in the UAE, the Corporate and Investment Banking Group ("**CIBG**") consists of dedicated industry specific business divisions and units providing a wide range of conventional and Islamic financial products exclusively to the government, public and private sector entities and emerging corporates across a variety of industries.

The Bank provides a wide range of innovative, customised and need-based financing solutions. These are delivered through the Bank's industry-specific "Industry Verticals". These verticals are supported by sophisticated product structuring teams and delivery solution experts. The Bank's offering is served out of the UAE with a dedicated operational team in Abu Dhabi, Dubai and Sharjah organised to tap into these markets and position expertise accordingly. The Bank's industry verticals include the following:

*Emerging Corporates*

The Emerging Corporate division specifically caters to the working capital and capital expenditure financing requirements of SMEs within the UAE, and tailors its products and services accordingly. Coverage includes SMEs across all sectors of the economy, providing them with trade finance facilities, working capital lines, term loans, deposit facilities, foreign exchange and investment products.

*Contracting Finance*

The construction sector is a rapidly growing and evolving industry. The Bank has a highly specialised division which caters to the financing requirements of local and international contractors undertaking projects in the region.

The Bank is a leading "Contracting Finance" bank in the UAE with an extensive client base, offering financing to contractors for projects and arranging individual solutions on a project specific basis. The Bank also has extensive expertise to assist its contracting finance clients and have then provided funding for the construction of projects such as:

- Infrastructure (Roads, Bridges, Tunnels and Sewage);
- Airports, Ports, Railway and Metro;
- Oil and Gas – Upstream and Downstream;
- Power and Desalination;
- Residential and Commercial Complexes; and
- Hospitals and Public Sector Facilities.

In addition to the above, the contracting finance division has partnered with industry experts as part of the Bank's strategic focus on industry specialisation, with the aim of adding value to the contracting industry through in-depth knowledge sharing, insights and interactions.

*Non-Banking Financial Institutions ("**NBFI**")*

The NBFI coverage unit was set up in late 2015 with a focus on widening the Bank's coverage breadth and product offerings in four key sub-verticals including: sovereign wealth funds, private equity and asset management, finance companies and exchanges and insurance companies and pension funds. The NBFI coverage unit seeks to:

- lead key investment and funding transactions;
- provide relevant balance sheet management solution;

- support liquidity and hedging requirements through innovative treasury solutions; and
- comprehensively cover operational day to day account management and working capital requirements.

*Corporate Finance Division*

The "Corporate Finance" division specialises in providing capital raising solutions for the Bank's corporate and financial institution client base. The Bank's corporate finance division has, in the recent past, lead-managed numerous syndicated transactions in the regional and international markets. The division advises on the optimising capital structures, contemplating financing frameworks, underwriting, and syndicating major transactions across the MENA region. To date, the division has established a strong regional franchise in financing projects and acquisitions across a range of economic sectors including, *inter alia*, oil, gas and petrochemicals, education, telecommunications, power, water, infrastructure and sponsors, companies and financial institutions.

The Bank assigns a significant amount of importance to this business which, given its high-value-low-volume nature, is also in line with the Bank's overall strategy of asset growth across its loan book. The Bank believes that this division presents significant growth opportunities in order to achieve its overall business strategy and to emphasise the Bank's growing focus on lead-bookrunning syndicated loan market transactions and securing global coordination and joint-lead roles on debt capital market issuances.

*Real Estate Finance & Advisory*

The Bank's "Real Estate Finance & Advisory" Division is one of the few dedicated real estate platforms amongst banks in the region. Encompassing coverage and structuring teams, the division offers clients a full suite of services across debt, equity, advisory and trust management, and has also spearheaded the Bank's entry into real estate fund management. It specialises in all key property sectors including commercial (offices and industrial), hospitality, residential and retail.

On the debt side, the division originates and executes innovative structures for midmarket and blue-chip real estate conglomerates including government entities, family offices, financial institutions and developers. The team has built a robust track record by executing landmark bilateral and syndicated transactions in the region.

On the advisory side, the division leverages its off-market deal intelligence to provide a full range of commercial due diligence services. The team is currently advising on the setup of an onshore property development fund.

**Real Estate Finance**

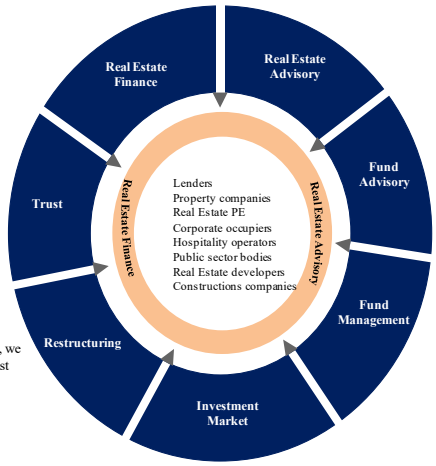
We originate independent deal flow
Real Estate-backed deals across coverage areas are structured by our team
We provide investment, development, hybrid and non-resource financing, and securitisation
We were one of the first banks in the region to structure facilities for a privately-held offshore SPV on a non-recourse, bilateral basis

**Real Estate Trust Management**

We are the market leader in setting up and maintaining Real Estate Regulatory Authority ("RERA") Trust Accounts for all the major Real Estate developers in UAE
- Market share of close to 50%
- Recognised as "**Top Trustee Bank**" by RERA
- In the absence of Escrow laws in other emirates, we are working with master developers to open Trust Accounts and augment investor confidence

**Real Estate Restructuring**

During the challenging climate of the financial crisis, the division established a strong track record executing and advising on restructurings and refinancing
Covering a range of issues including:
- Balance sheet optimization
- Origination and execution of restructuring plans
- Selection and appointment of asset managers, agents and other professionals
- Advice on enforcement methods




**Real Estate Advisory**

We provide market-facing advice on the acquisition and disposal of Real Estate portfolios and individual assets
We also provide a full range of buy-and-sell side commercial due diligence services
We structure real estate transactions for other coverage areas across the Bank, including Retail Banking and Private Banking

**Real Estate Fund Management**

We provide origination, structuring and execution advice for Real Estate investment, development and hybrid funds, advising prominent local and international clients
In 2014, we partnered with a prominent Real Estate player in the UAE to structure and launch the Bank's first Real Estate Fund, which will be established as the first DIFC Qualified Investor Fund in the UAE, fully regulated by the DFSA

**In-House Investment Market Analysis**

Relationships with real-time data providers
We have in-depth knowledge and technical skill set, covering all the major asset classes:
- Commercial (offices and industrial)
- Hospitality (hotels and hotel apartments)
- Residential (apartments and villa complexes)
- Retail (community, regional, super-regional malls as well as smaller strip mall concepts)

Focus on net yields, location, infrastructure, long-term sustainability, core to core-plus

Real Estate Finance & Advisory also leverages its deep relationships with institutional and government agencies to identify growth opportunities for the Bank. The division continues to provide strategic support by managing institutional deposits which represent a major part of the Bank's liabilities portfolio.

The Trust Management team has also successfully placed institutional funds in escrow accounts that are managed in-house, achieving a close to 30 per cent market share of projects in Dubai. The Trust management department was the first to be mandated as an authorised escrow agent by the Real Estate Regulatory Agency, and has won the Bank the award for "Top Trustee Bank" in 2010, 2013 and 2014. The team is actively working with the Dubai Land Department on the Tayseer and Owner's Association fronts, and is also assisting the Bank's other teams across the Emirates and in Qatar to formalise a streamlined trust management process. Going forward, Real Estate Finance & Advisory will leverage its synergies across trust management, debt and advisory to arrange financing for stalled projects and help complete developments that are commercially viable.

*Investment Agency Services*

The Bank is one of the few banks in the region to offer a full suite of facility agency, security agency and initial public offering services to its customers. The Bank seeks to renew the focus around the initial public offering function and provide world class services to both participants in large syndicated transactions and fund raising processes.

*Islamic Banking*

The Bank operates its Islamic banking division under the brand of "Mashreq Al Islami" through its wholly-owned subsidiary, Mashreq Al Islami Finance Company. The Bank has a number of years of experience in providing Islamic banking services to its customers. In 2006, the Central Bank of UAE also provided approval for the Bank to formally operate an Islamic banking division with the caveat that the Bank must avoid co-mingling Islamic customers' accounts with conventional banking accounts. This arrangement is managed by an independent team of Islamic finance experts.

The Bank has put together a comprehensive suite of Islamic products and services which include a full range of wholesale banking products including trade finance, real estate finance, contracting finance, structured finance, capital market solutions, investment products and Islamic alternatives to currency, profit rate and commodity price hedging solutions. The Bank helps its customers from retail to wholesale banking inclusive of all market segments to utilise the Bank's Islamic banking products and services. Each Islamic product and service is aligned with its conventional alternative.

All products and services are offered from the same distribution channels as its conventional alternative with a key differentiator being Islamic banking training and certification. The Islamic banking resources work together with the Bank's other divisions on product offerings, transaction origination, Islamic structuring, documentation review and *Shari'a* approvals.

The Islamic banking division is guided by an independent, internationally renowned and highly respected *Shari'a* supervisory board. The Bank is fully committed to offer highest level of *Shari'a* compliant products and services.

*Global Transaction Services – Cash and Trade Services*

The Bank's Global Transaction Services ("**GTS**") continues to lead in the Cash Management & Trade finance space in the UAE and across countries in the region, delivering solutions to meet the dynamic and holistic needs of its customers. The key building blocks for GTS include a strong focus on innovation, product offering covering the entire spectrum of transaction banking needs of the customer's payments, collections, trade and supply chain, a competitive brand positioning and excellent customer experience.

The Bank is committed to becoming the corporate digital bank of the future and its state of the art integrated transaction banking online platform, "mashreqMATRIX", continues to evolve as an online banking channel. In addition to mashreqMATRIX, the Bank has developed a new mobile channel "mashreqMATRIX Edge" available to its corporate clients. Integration of its clients' ERP with mashreqMATRIX through host-to-host services provides further convenience to corporate clients for their payables, receipting and reconciliation services. Supporting the digitisation drive is the innovative, proprietary collection service "Mashreq Monster", which enables real time collection of cash at customer premises.

The Bank has developed a range of factoring and buyer/vendor finance services that ensure adequate funds to deal with daily expenses, cost-effective sales and receivables ledger management and collections, and assured supply channels.

***Domestic retail***

With a domestic network of 50 branches, one electronic banking service unit and 323 ATMs spread across the seven emirates (as at 15 November 2017), the Bank is one of the leading providers of retail banking services in the UAE. The Bank also provides retail banking products and services through its branches in other countries including Qatar and Egypt.

The Bank's retail banking products and services encompass a wide range of consumer loans, as well as basic and enhanced current accounts, demand, savings and term deposits, investment certificates, checking account services, electronic funds services, foreign exchange services, debit and credit cards As part of its retail offering, the Bank also offers a range of bank assurance products which focus on whole life and term life insurance.

In 2017, the Bank has been recognised for its innovation and digital efforts both locally and regionally. It was awarded Best cash management services in the Middle East, Best factoring services in the Middle East, Best trade finance services in the Middle East and Best treasury services in the Middle East from EMEA Finance during the SWIFT International Banking Operations Seminar in Canada. The Bank won the Global Service Quality Performance Award for its Merchant Acquiring Business from Visa. Twelve different awards were received from Global Finance, most notably the Innovator in Transaction Services for the Cardless Cash Withdrawal Using Internet Banking offering in the product innovation category, Best Consumer Mobile Banking Global, Best Mobile Banking App Middle East, Best Consumer Digital Bank Middle East and UAE, and the Most Innovative Consumer Digital Bank Middle East. The Bank is also the first bank in the region to be recognised as the 'Best Contact Centre' in Europe, Middle East and Africa by the Contact Center Association in London, in addition to being awarded 'Best Contact Centre Middle East' by Insights Middle East in Dubai.

The Bank has increased its presence in private banking through bespoke financial solutions that cater to ultra-high net worth individuals and owners of companies through offering investment advisory services covering a range of in-house and third party investment products which include equity mutual funds, fixed income funds, insurance and structured notes.

Throughout its 50 year history, the Bank has pioneered many innovative banking products and services and has achieved a number of notable firsts in the UAE. It was the first UAE bank to deploy ATMs and point of sale terminals, the first UAE bank to issue credit cards, the first UAE bank to offer a fully functional call centre, the first UAE bank to introduce packages to current accounts ('Mashreq Choice') and the first UAE bank to issue its own travellers cheques. It was also the first bank in the UAE to introduce a debit chip card with a loyalty and rewards programme that can be used at point of sale terminals. The Bank was the first bank in the region to launch a fully automated branch and fully integrate its banking systems with Emirates Identity Authority.

In 2017, the Bank launched Mashreq Neo, the first full service digital bank in the GCC region to provide access to international markets for investment opportunities including foreign equities, gold trading and foreign currency accounts.

In 2017, the Bank also introduced a new frontline role called universal bankers ("**UB**"). UBs deliver on customer requests and are trained to have an understanding of all of the Bank's products and services, allowing them to provide customers with immediate service options to meet their banking requirements.

During the first quarter of 2017, the Bank launched an exclusive partnership with Samsung, enabling its customers to be the first to gain early access to 'Samsung Pay', a secure mobile payment service that works as a contactless credit or debit card. The Bank also launched Mashreq Pay - a digital mobile wallet providing secure easy-to-use payment for purchases. The Bank ended the third quarter of 2017 by providing its customers with 'Apple Pay', which provides customers with an easy, secure and private way to pay.

The Bank continues to invest in digital and innovative services to enhance its customer experience and offer premium banking services to its customers. The Bank's mobile banking service, Snapp, offers a

wide range of digital services to its customers. Key features of Snapp include card control, cardless cash withdrawal and mobile-to-mobile transfer through Mashreq Pay.

As part of the Bank's commitment to support SMEs and provide them with the state of the art banking facilities and innovation, the Bank has announced the launch of a new mobile banking app for SMEs called 'SnappBiz'. The aim of the app is to provide easier, more efficient and accessible services for SME customers when they are on the go. The app will save business owners' time, as all transactions initiated through online banking can be authorised from SnappBiz.

In regards to its merchant acquiring business, the Bank announced a partnership with the Department of Finance and the Smart Dubai Government Establishment to collect payments made via the Smart Dubai Portal. Under the agreement, the Bank is now an acquirer of payments made with credit and debit cards issued by banks worldwide. The Bank has also partnered with Dubai Police to provide them with a variety of state of the art payment solutions. These smart solutions employ security features that will enable the Dubai Police to interact with and serve their customers better. The mobile payment solution will allow police officers to collect fines and payments from residents and visitors on the spot, instead of issuing a ticket and creating the inconvenience of visiting a separate location to pay a fine. The customer facing payment machines at Dubai Police locations will allow customers to make payments on their own, without having to hand over their cards to anyone. These innovations are in line with the Smart Dubai initiative to create happiness by embracing technological innovation to make Dubai the most efficient, seamless, safe and impactful experience for residents and visitors.

Mashreq Salaam Rewards is a banking loyalty programme that rewards its customers with Salaam Points for their entire relationship and day to day banking with the Bank. Customers earn points for both Conventional & Islamic banking solutions and services along with any payments made on their Mashreqbank Credit & Debit cards. Salaam Rewards allows customers to use their points instantly for free flights, hotel booking, free movies tickets and facility to use points instantly using their Mashreq debit or credit card at more than 2,200 outlets across the UAE.

***Treasury and Capital Markets ("TCM")***

The Bank's treasury and capital markets group works closely with the Bank's corporate, retail and international banking groups to serve the needs of its corporate, retail and financial institutions customers' in the fields of treasury and investment products, both locally and internationally.

Mashreq Securities LLC, a subsidiary of the Bank, is an accredited securities broker on the Dubai Financial Market PJSC ("**DFM**"), the Abu Dhabi Securities Exchange ("**ADX**") and NASDAQ Dubai. Mashreq Securities LLC offers brokerage in both conventional as well as Islamic formats. In 2006, Mashreq Securities LLC introduced online trading facilities which provide clients with fast and reliable access to both the DFM and the ADX.

The Bank is also a broker and clearing member of the Dubai Gold and Commodities Exchange and a member of the Dubai Metal Exchange and has established an asset management subsidiary, Mashreq Capital (DIFC) Limited in the DIFC. In addition, the Bank's treasury and capital markets group undertakes a limited amount of proprietary trading activity.

In recent years, the Bank has extended its treasury and capital markets product range to include customised derivative products designed to meet customers' individual investment and hedging requirements in foreign exchange, interest rates and equities.

The treasury and capital markets group is also primarily responsible for managing the Bank's liquidity requirements. It acts under the supervision of ALCO.

*Rates and Structured Solutions Desk*

The Rates and Structured Solutions Desk focuses on providing liability hedging solutions and tailor-made investment strategies to corporate, institutional and high net worth customers of the bank across the GCC region. The desk works on large interest rate hedging transactions and provides access to primary and secondary fixed income markets to the Bank's clients including banks, corporates, non-bank financial institutions, family offices and high net worth individuals. The desk produces several research publications on a periodic basis covering international and regional economic and market developments. The desk worked on a number of new sukuk transactions during 2017, including acting as global

coordinator and joint lead manager and book-runner in the marketing, distribution and placement of Ezdan Holding's USD500 million 5 year sukuk. The Bank has also expanded its Reverse Repo offering by adding new relationships and volumes which are expected to grow during 2018.

*Asset Management*

The Bank's Asset Management business is comprised of several mutual funds and discretionary mandates that are run, for the most part, along the same strategies as the public funds. The funds are housed in various jurisdictions including the DIFC (Mashreq Al Islami Income Fund), the Kingdom of Bahrain (Makaseb Funds) and an undertakings for collective investments in transferable securities ("**UCITS**") fund (Mashreq Al Islami Arab Tigers Fund) housed in Ireland.

Mashreq Capital (DIFC) Ltd. ("**MC**") is the entity responsible for running all the public funds and all discretionary account mandates. The firm specialises in regional public equities and global fixed income, in both the Shari'a and conventional space. Starting 2014, the Mashreq Al Islami Arab Tigers Fund, housed in Ireland, became Shari'a Compliant. The Makaseb Arab Tigers Fund also changed its management company to the MC in 2015.

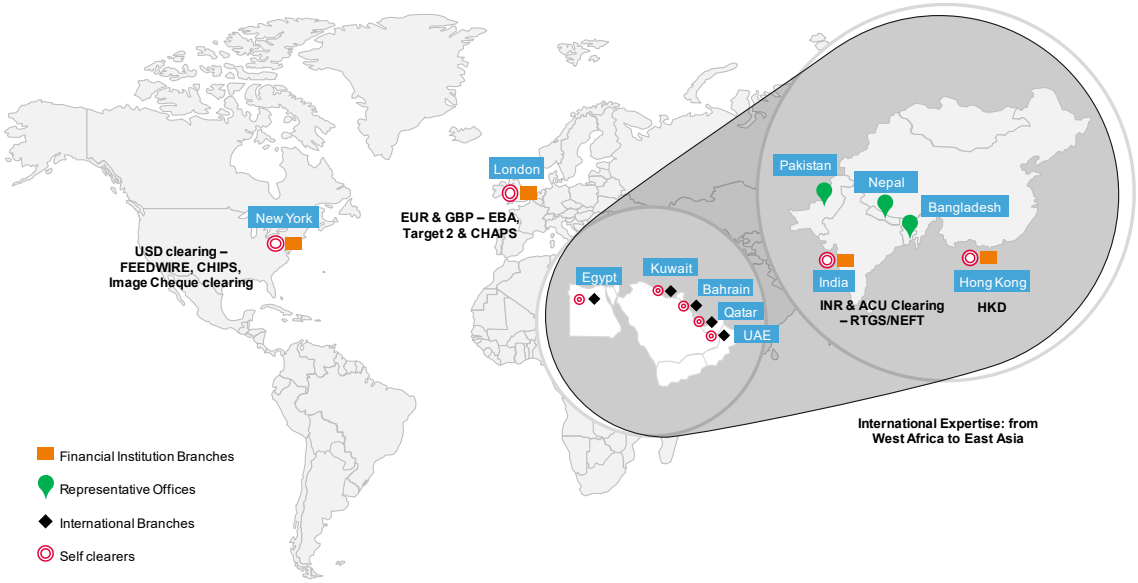
**International Banking**

The international banking group ("**IBG**") provides commercial banking services to customers outside the UAE. The financial institution group is part of the international banking group and provides corresponding banking and trade finance products and services to financial institutions in select markets. The Bank's branches in London, New York, India and Hong Kong service financial institutions exclusively.

As at the date of this Base Prospectus, the international banking network spans eight countries: the Kingdom of Bahrain, Kuwait, Hong Kong, India, London and New York each operate one branch; Egypt operates ten branches across Cairo and Alexandria; and the State of Qatar operates five branches in Doha. The Bank is also present in Pakistan, Bangladesh and Nepal through Representative Offices.

During 2017, the Bank took initial steps towards building the selective corporate banking business through its Mumbai Branch to support the corporate banking business. The Bank has also recently been licensed for offshore banking in Bahrain which will help the Bank to mobilise wholesale low cost institutional deposits and contribute to the growth of its Bahrain business.

**The Bank's Widespread Network**



The Bank's strategic goal is to continue to leverage its existing footprint by supporting the needs of international client in each of its franchises. The primary focus remains on payments, trade, investment and capital flows, whether inwards or outwards, between the GCC, Egypt and the rest of the world. The secondary focus is transactions across its network.

The Bank differentiates itself through an in-depth knowledge of the markets it operates in; adopting a relationship based approach in all of its interactions; delivering a high level of service quality to all of its customers and leveraging off the strong product capabilities developed by its partners, domestic retail, CIBG and TCM, in its UAE home base.

The Bank's international presence allows it to offer a full range of commercial products and distribution channels to local and regional clients served by the Bank's branch network. As at the date of this Base Prospectus, commercial customers that are based in countries that do not have a branch presence are served out of Dubai. The main focus of the IBG is on lending, trade finance, treasury services and capital market products structured both conventionally and in a *Shari'a* compliant manner.

The Bank has continued to develop its presence in the Indian Subcontinent and Africa. In particular, the Bank is a house bank to financial institutions in Bangladesh, Nepal and Pakistan with a growing market share in such regions. The Bank has also become a major player in key African countries and has expanded its offerings from transaction banking to raising funds for the banks and development financial institutions in Africa.

**Loan Portfolio**

The Bank's total loans and advances to banks and customers (net of impairment allowances) were AED 64,645 million as at 30 September 2017, AED 60,994 million as at 31 December 2016 and AED 60,166 million as at 31 December 2015. The following table sets out the Bank's gross loans (including Islamic financing and interest proceeds), provisions and loan to deposit ratios as at the dates indicated.

| | **As at 30 September 2017** | **As at 31 December 2016** | **As at 31 December 2015** |
|---|---|---|---|
| | | *(AED Millions)* | |
| Gross loans | 68,443 | 64,269 | 62,980 |
| Interest in suspense | (426) | (315) | (234) |
| Allowances for impairment | (3372) | (2961) | (2,581) |
| Net loans | 64,645 | 60,994 | 60,166 |
| Net loans/customer deposits (per cent.) | 84.9% | 79.2% | 81.7% |
| Net loans/customer deposit + medium term loan (per cent.) | 78.3% | 74.4% | 77.4% |

***Distribution of Loans by Type of Collateral***

As at 31 December 2016, approximately 28 per cent. of the Bank's gross loans and advances, including Islamic financing, were secured by collateral, consisting primarily of mortgage interests over property, other registered securities over assets and guarantees.

The Bank's credit procedures and policies specify margins and collateral coverage ratios (i.e. loan to value of collateral) depending on the type of facility and collateral obtained as well as the financial strength of the underlying borrower. The Bank has systems in place to monitor and enforce margin and collateral top-up requirements, if any. The Bank's method of valuing the collateral depends upon the type of collateral taken. The Bank also obtains independent valuations of other types of collateral on a regular basis. Borrowers may be required to provide a cash top-up or provide additional collateral as a result of such valuations.

Consumer loans provided for the purchase of assets, such as vehicles or residential property, are typically secured by the relevant assets. Those assets which are the subject of security in favour of the Bank are valued in advance of the loan being granted. For the purposes of calculating collateral coverage ratios, the Bank uses the lower of the purchase cost or fair market value of the relevant assets. Unsecured consumer loans are granted against the transfer of salary of the borrower and to employees of pre-approved companies or government departments.

### *Distribution of Loans by Maturity*

The following table shows the distribution of the Bank's loan portfolio (net of impairment allowances) by maturity as at 30 September 2017, 31 December 2016 and 31 December 2015:

| | As at 30 September 2017 | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| | | *(AED Millions)* | |
| Short term loans[1] | 31,665 | 33,560 | 31,688 |
| Medium and long term loans[2] | 32,980 | 27,434 | 28,478 |
| **Total** | **64,645** | **60,994** | **60,166** |

Notes:
(1) Residual Maturities of up to and including one year.
(2) Residual Maturities in excess of one year.

### *Distribution of Loans by Currency*

The following table shows the distribution of the Bank's loan portfolio (net of impairment allowances) by currency as at 30 September 2017, 31 December 2016 and 31 December 2015:

| | As at 30 September 2017 | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| | | *(AED Millions)* | |
| AED | 42,065 | 39,264 | 37,790 |
| Foreign currency | 22,580 | 21,730 | 22,376 |
| **Total** | **64,645** | **60,994** | **60,166** |

The loans and advances, including Islamic financing, made by the Bank are typically funded in the same currency as the deposits and other sources of funds obtained by the Bank, which limits the Bank's exposure to exchange rate fluctuations. See "*— Risk Management — Currency Risk Management*."

## Credit Approval Procedures

The Bank has separate approval processes for its retail and commercial businesses.

### *Consumer Loans*

Each retail credit application is considered for approval according to a product programme, which is devised in accordance with guidelines set out in the product policy approved by the Bank's Risk Committee ("**RC**"). All approval authorities are delegated by the RC or by the Chief Executive Officer acting on behalf of the RC. Different authority levels are specified for approving product programmes and exceptions to, and individual loans/credits under, product programmes. Each product programme contains detailed credit criteria (for example salary multiples, bank statements, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product programme) to Level 4 (the highest level where RC approval of a specific credit policy exception is necessary).

### *Commercial Lending*

All credit applications are subject to the Bank's credit policies, credit limits, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time.

Credit applications typically include the following information: the risk rating of the applicant; transaction details (including the amount and type of facility sought and pricing); the relevant credit conditions of the applicant; the security details of the applicant; information relating to the operating condition, business and management of the applicant, including a detailed financial analysis,

background/historical information relating to the applicant; and related industry factors. The Bank sets credit limits for all borrowers and/or counterparties based on their creditworthiness.

The Bank implemented a credit risk rating framework that supports the development of key credit risk parameter estimates which measure credit and transaction risk. In 2016, the Bank partnered with Moody's Risk Analytics to perform a Basel internal ratings-based compliant model validation exercise. The risk parameters used in the new risk rating models are transparent and may be replicated in order to provide consistency of credit approval, as well as minimum lending standards for each of the risk rating categories. The Bank's credit risk rating system is subject to a model governance and oversight framework which states key performance indicators for a continuous monitoring of the models. The objectives of this framework are to ensure that credit risk rating methodologies and parameters are appropriately designed and developed, independently validated, and regularly reviewed. However, credit risk rating models are subject to model risk due to their statistical nature and the data limitations.

All credit lines or facilities extended by the Bank are approved under a delegated signature authority system under the ultimate authority of the RC or the Bank's Chief Executive Officer. At least two signatures are required to approve any non cash-secured commercial credit application, one of which has to be from an Independent Credit Risk Manager. Depending on the amount of the credit, the borrower risk rating, the nature of the credit facility or a specific policy issue, a third concurring signature may also be required.

The Bank has established country limits for cross-border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross-border risk. These limits are regularly reviewed by the Bank's credit risk management and periodically reviewed by the RC. The Bank uses an international risk rating system to differentiate between the quality of various sovereign risks.

The Bank has diversified its exposure to avoid concentration risk. However, growth in exposure in some international jurisdictions with a higher risk profile than the UAE could have a material impact on Bank's results.

***Credit Review Procedures and Loan Classification***

Specialists within the Audit, Fraud and Compliance Group ("**AFCG**") undertake regular reviews of the Bank's portfolio. In the wholesale portfolio this involves the sampling of assets. In retail the focus is on testing the Bank's risk management processes, including the periodic review of retail assets, portfolio quality and related provision. Specialist independent auditors subject the Bank's risk assets to a quality evaluation on a regular basis in conformity with the guidelines of the UAE Central Bank and the Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The specialists validate the risk ratings of those commercial and institutional clients and ensure approved credit policies, guidelines and operating procedures across the Bank are implemented, or highlight identified gaps in their reports.

***Loan Classification***

The Bank has in place a risk rating system for its wholesale borrowers based on probability of default models. An application and behavioural scorecard has also been developed for the Bank's principal retail products.

The Bank's master risk rating scale is comprised of twenty five grades (MRS1 TO MRS25) and encompasses the material asset portfolio of the Bank. The risk ratings are more granularly defined and, as they are based on specific models for specific segments, are comparable across the entire portfolio.

While the Bank has adopted the risk rating system, it will continue to ensure that its policies are in compliance with UAE Central Bank regulations. The Bank's portfolio of non-performing loans (obligations which are 90 days or more past due for principal or interest) continue, however, to be classified as either Non-Accrual Under Restructuring, Sub-standard, Doubtful or Loss, and as required by applicable UAE Central Bank regulations. The UAE Central Bank requires the following classification policy:

- Watchlist: These are loans and advances, including Islamic financing, which show some weaknesses in the borrower's financial condition and credit-worthiness, requiring more than normal attention but not allocation of provisions;

- Sub-standard loan: These are loans which may lead to the incurring of some loss due to adverse factors (financials, economic, legal, political, or managerial) which may hinder repayment, or due to weakening of security. Normally, this category includes loans and advances in which payment of principal is in arrears beyond 90 days. In such a case, a provision of 25 per cent. of the total loan balance is required;

- Doubtful loan: These are loans whose full recovery seems doubtful on the basis of information available, leading generally to a loss of part of these loans (when the financial position of the customer is not sound and securities are not sufficient). In such a case, a provision of 50 per cent. of the total loan balance is required; and

- Loss loan: These are loans where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered. In such a case, a provision of 100 per cent. of the total loan balance is required.

*(Note: The specific provisions as above are to be based on the Net Exposure Amount being the Outstanding Loan balance less the Net Realisable Value of the collateral held calculated in terms of the UAE Central Bank guidelines)*

***Provisions***

The Bank's policy for the calculation of impairment provisions for loans and advances complies in all material respects with the specific and general provision requirements of the UAE Central Bank. Following UAE Central Bank circular No. 28 of 2010 dated 11 November 2010 ("**Circular No. 28**"), banks operating in the UAE, including the Bank, were required in addition to the specific provisions, to build a general provision for unclassified loans and advances equal to 1.5 per cent. of risk weighted assets by 2014. The Bank currently maintains a general provision of 2.5 per cent. of its total loan portfolio, including Islamic financing. As at 30 September 2017, the Bank had specific impairment allowances for loans of AED 1,677 million in addition to a collective impairment allowance of AED 1,695 million.

Impairment allowance requirements in respect of classified assets (under the Bank's internal risk classification) broadly follow the following guidelines for the Bank's exposure:

| Category | Provision (%) |
|---|---|
| Sub-standard | 25 |
| Doubtful | 50 |
| Loss | 100 |

In accordance with Circular No. 28, for Personal Consumer Loans, Car Loans, and Credit Cards the Bank provides a 25 per cent. impairment allowance at 90 days past due and a 50 per cent. impairment allowance at 120 days past due. The Bank writes-off retail advances and credit card balances once they are 180 days past their due date. Loss Given Default and Expected Loss metrics have also been developed for the major retail products.

The Bank complies with IAS 39, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by UAE Central Bank guidelines, the Bank takes the higher of the loan loss provisions required under IAS 39 and IFRS 9 and UAE Central Bank regulations.

In adopting prudent credit review and risk management procedures, the Bank seeks to maintain tight control over its loan portfolio to manage credit costs effectively and to minimise unexpected losses.

The Bank also has a separate collection and recovery team for all delinquent retail lending, which commences collection efforts between one and 30 days after the first default. More aggressive recovery efforts are initiated when a loan has been delinquent for more than 90 days. For the wholesale portfolio, the Bank has a separate unit, the commercial recovery unit, which is responsible for handling non-performing commercial loans with a view to ensuring maximum recovery for the Bank. In addition,

the Bank's legal department is fully involved throughout the remedial process, initiating appropriate legal action where necessary.

***Impact of the new IFRS 9 Impairment guidelines***

Impairment of financial assets under IFRS 9, implemented on 1 January 2018, is going to fundamentally redesign the provisioning process, moving from an 'incurred loss' model to a forward looking 'expected loss' model. The standard contains a 'three stage' approach to recognize credit impairment, which is based on the changes observed in credit quality of financial assets since initial recognition. Assets move through the 3 stages as credit quality changes and the stages dictate the level of impairment losses to be recognised. For the recognition of impairment losses on financial assets, expected loss is to be computed which is a total of specific provision and general provision.

The provision requirements under IFRS 9 are likely to be substantially higher than the existing specific provision and general provision.

***Doubtful and Loss Accounts – Customers***

The following table shows the Bank's non-performing loans, including Islamic financing, and related provisions and ratios as at 30 September 2017, 31 December 2016 and 31 December 2015:

| | **As at 30 September 2017** | **As at 31 December 2016** | **As at 31 December 2015** |
|---|---|---|---|
| | | *(AED Millions)* | |
| Total loans (gross) | 68,443 | 64,269 | 62,980 |
| Interest in suspense | 426 | 315 | 234 |
| Impairment allowance for doubtful loans | 3,372 | 2,961 | 2,581 |
| Total allowance for impairment | 3,798 | 3,276 | 2,815 |
| Non-performing loans | 2,935 | 2,275 | 2,014 |
| | | *(%)* | |
| Non-performing (net of interest in suspense)/total loans (gross) | 3.7 | 3.1 | 2.8 |
| Impairment allowance/Non-performing loans (net of interest in suspense) | 1.3 | 1.5 | 1.5 |

The Bank charges interest on most non-performing accounts for litigation purposes but does not record such accrued income with respect to non-performing accounts as income in preparing its financial statements. The Bank writes-off certain loans against provisions held, in order to streamline its loan portfolio and in the year ended 31 December 2016, the Bank wrote-off AED 0.5 million from classified accounts which had been fully provisioned in previous years. The Bank wrote off AED 0.06 million from classified accounts during the nine months ended 30 September 2017.

**Doubtful and Loss Accounts - Banks**

The following table shows the Bank's non-performing assets and related provisions and ratios as at 30 September 2017, 31 December 2016 and 31 December 2015:

| | **As at 30 September 2017** | **As at 31 December 2016** | **As at 31 December 2015** |
|---|---|---|---|
| | | *(AED Millions)* | |
| Due from banks (gross) | 18,923 | 18,668 | 15,010 |
| Non-performing bank assets | - | - | 0.1 |
| Impairment allowance for bank assets | - | - | 0.1 |
| Non-performing/total due from bank (per cent.) | - | - | - |
| Total impairment allowance/non-performing bank assets (per cent.) | - | - | 100 |

**Investment Portfolio**

As at 30 September 2017, the Bank's investment portfolio represented 11.6 per cent. (compared to 10.8 per cent. as at 31 December 2016 and 10.3 per cent. as at 31 December 2015) of its total assets and as at 30 September 2017 the Bank's financial assets at fair value portfolio represented 1.4 per cent. (compared to 1.97 per cent. as at 31 December 2016) of its total assets.

The equity holdings of the Bank, which constituted 4.2 per cent. of the Bank's investment portfolio as at 30 September 2017 (compared to 5.5 per cent. as at 31 December 2016 and 5.4 per cent. as at 31 December 2015) consist of corporate shares and are typically held by Oman Insurance Company, the Bank's insurance subsidiary. Debt securities held by the Bank include securities issued by banks and sovereigns in the UAE and the GCC.

**Deposits and Other Funding Sources**

As at 30 September 2017, customer deposits constituted 83.2 per cent. (compared to 82.6 per cent. as at 31 December 2016 and 82.3 per cent. as at 31 December 2015) of the Bank's total funding sources and 75.3 per cent. (compared to 74.6 per cent. as at 31 December 2016 and 76.2 per cent. as at 31 December 2015) of the Bank's total liabilities.

In February 2004, the Bank established this Euro Medium Term Note Programme. The programme size was increased from U.S.$750 million to U.S.$2 billion in March 2006 and increased again to U.S.$5 billion in September 2010.

In 2015, the Bank issued 10 private placement Notes under the EMTN programme for a total of U.S.$ 194 million.

In 2016, the Bank issued 19 private placement Notes under the EMTN programme for a total of U.S.$ 491.4 million.

As at the date of this Base Prospectus, the Bank has issued 56 private placement Notes under the EMTN programme for a total of U.S.$ 1,523.1 million during 2017.

The following table sets out the maturity profile of the Bank's liabilities as at 30 September 2017, 31 December 2016 and 31 December 2015:

| | **As at 30 September 2017** | | **As at 31 December 2016** | | **As at 31 December 2015** | |
|---|---|---|---|---|---|---|
| | *(AED Million)* | *Per cent.* | *(AED Million)* | *Per cent.* | *(AED Million)* | *Per cent.* |
| Short-term[1] | 95,738 | 94.67 | 97,908 | 94.75 | 85,684 | 88.6 |
| Long-term[2] | 5,387 | 5.33 | 5,420 | 5.25 | 10,987 | 11.4 |
| **Total** | **101,125** | **100** | **103,328** | **100** | **96,671** | **100** |

(1) Short-term means deposits maturing less than one year and other liabilities.
(2) Long-term means deposits and borrowing maturing more than one year.

The Bank established a full time quantitative group to maintain and develop rating models and scorecards and enhance the Bank's portfolio management capabilities. The Bank undertakes periodic validation of its rating model, to ensure compliance with Basel II guidelines.

The Bank believes that these metrics and methodologies will enhance its competitiveness, by allowing better risk and capital management and improved risk / return decision making, and continue to meet the Basel II requirements.

***Market Risk Management***

The Bank's exposure to market risk in its money market and treasury activities is monitored and controlled on a daily basis by the Bank's market risk unit under the risk management unit using detailed daily management information reports. The treasury and capital markets group stipulates individual dealer position and trading limits and cross-border and financial institutions exposure limits for money market and treasury activities managed within the overall UAE Central Bank regulatory guidelines and according to the Bank's own guidelines. Cross-border and financial institutions exposure limits for money market and treasury activities are approved in accordance with guidelines set out in the Bank's credit policy manual and are monitored by the IBG.

A key element in market risk management is the estimation of potential loss that may arise from adverse changes in market conditions. To estimate such potential loss, the Bank implemented a Value-at-Risk ("**VaR**") model which is being used to set VaR-based limits with respect to market risk. The VaR model

takes into account variables that may affect portfolio value such as interest rates, foreign exchange rates and security prices and their respective volatilities, and the correlations between these variables. The VaR estimates take account of potential diversification benefits of different positions both within each and across different portfolios.

***Liquidity Risk Management***

The Bank manages its liquidity in accordance with UAE Central Bank requirements and its own internal guidelines. The UAE Central Bank sets cash ratio requirements on overall deposits ranging between 1 per cent. and 14 per cent. according to the tenor of the deposits. The UAE Central Bank also imposes a mandatory 1:1 utilisation ratio whereby loans and advances (combined with interbank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the UAE Central Bank. Stable funds are defined by the UAE Central Bank to mean free own funds, interbank deposits with a remaining term of more than six months and stable customer deposits. As at 30 September 2017, the Bank's net loans and advances, including Islamic financing, to stable funds ratio was 81.07 per cent. To guard against liquidity risk, the Bank has diversified its funding sources and manages its assets with liquidity in mind, seeking to maintain a balance of cash, cash equivalents and readily-marketable securities. ALCO sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The following table sets forth a number of liquidity ratios for the Bank as at 30 September 2017 and 31 December 2016 and 2015:

| Liquidity Ratios | As at 30 September 2017 | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| Customer deposits/total funding base | 83.2% | 82.6% | 82.3% |
| Net loans/customer deposits | 85.0% | 79.2% | 81.7% |
| Net loans/total assets | 53.1% | 49.7% | 52.3% |

***Interest Rate Risk Management***

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

The Bank uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by ALCO. Most of the Bank's assets and liabilities are of a floating rate nature and therefore the price of both assets and liabilities move simultaneously, providing a natural hedge and reducing interest rate exposure. Moreover, the majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

***Currency Risk Management***

The UAE dirham is the Bank's functional currency. Almost all of the Bank's assets and liabilities are denominated in UAE dirham or U.S. dollars. As a result, limited structural cross-currency foreign currency exposure exists. However, the bank does maintain a long U.S. dollar position of AED 1.9 billion as at 31 December 2016, which is within limits approved by ALCO. As of 31 December 2016, the Bank's other net foreign exchange exposure was not significant except for: an AED 2.2 billion long position in Qatari Riyals; an AED 123 million long position in Bahrain Dinar; an AED 67 million long position in Kuwaiti Dinar; AED 4 million long position in Pound Sterling; an AED 51 million long position in Japanese Yen; AED 201 million long position in euro; AED 3 million long position in Swiss Francs; and an AED 15 thousand short position in Chinese Yuan; AED 59 million long position in Saudi Riyal.

See Note 43 to the audited consolidated financial statements in respect of the year ended 31 December 2016.

***Audit***

The Wholesale Audit team, which is part of the AFCG, reviews the credit facilities provided by the Bank to its Commercial and Institutional clients. The team provides an independent assurance on effectiveness of corporate lending and risk management process across the Bank and their conformity with the Bank's

internal policies and regulatory guidelines including the risk rating assigned to the borrower. They also review the processes associated with Credit Initiation, Approval and Account Management, mechanism for portfolio tracking and monitoring, KYC and risk classification and adherence to *Shari'a* compliance guidelines. The Retail Audit team provides an assessment of the processes to highlight portfolio risk by product and segment for retail customers and provides assurance on observance of all approved credit policies, guidelines and operating procedures across the Bank.

***International Financial Reporting Standards***

During the year ended 31 December 2009, the Bank adopted new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and effective for current accounting periods or can be adopted earlier than their effective dates as permitted by IFRS, including amendments to IAS 39 (Recognition and Measurement), IFRS 7 (Financial Instruments: Disclosure and Presentation) and IFRS 9 (Financial Instruments: Recognition and Measurement).

The adoption of these new and revised standards and interpretations resulted in changes to the Bank's presentations and disclosure in its financial statements as required by IFRS.

## Competition

As at 30 September 2017, the Bank was the fifth largest local bank in the UAE in terms of total assets (see below – "*Ranking by Total Assets*"). The Bank competes principally with other commercial banks in the UAE, but also faces competition from regional and international banks and investment companies.

The following tables show rankings of local banks operating in the UAE by total assets, customer deposits, total loans and advances and retail loans and advances as at 30 September 2017 and 31 December 2016:

| **Ranking by Total Assets** | **As at 30 September 2017** | **As at 31 December 2016** |
|---|---|---|
| | *(AED Millions)* | |
| First Abu Dhabi Bank | 644,119 | 649,121 |
| Emirates NBD | 461,084 | 448,004 |
| Abu Dhabi Commercial Bank | 259,599 | 258,289 |
| Dubai Islamic Bank | 201,162 | 174,971 |
| Mashreqbank | 121,753 | 122,814 |
| Abu Dhabi Islamic Bank | 121,269 | 122,290 |
| Union National Bank | 104,607 | 103,916 |

***Source: 2016 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2017) of each bank.***

| **Ranking by Customer Deposits** | **As at 30 September 2017** | **As at 31 December 2016** |
|---|---|---|
| | *(AED Millions)* | |
| First Abu Dhabi Bank | 378,870 | 379,165 |
| Emirates NBD | 322,073 | 310,752 |
| Abu Dhabi Commercial Bank | 163,122 | 155,442 |
| Dubai Islamic Bank | 143,528 | 122,377 |
| Abu Dhabi Islamic Bank | 99,094 | 98,814 |
| Union National Bank | 76,099 | 77,525 |
| Mashreqbank | 74,324 | 77,041 |

***Source: 2016 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2017) of each bank.***

| **Ranking by Loans and Advances** | **As at 30 September 2017** | **As at 31 December 2016** |
|---|---|---|
| | *(AED Millions)* | |
| First Abu Dhabi Bank | 328,280 | 334,430 |

| Ranking by Loans and Advances | As at 30 September 2017 | As at 31 December 2016 |
|---|---|---|
| | *(AED Millions)* | |
| Emirates NBD | 304,110 | 290,396 |
| Abu Dhabi Commercial Bank | 165,988 | 158,458 |
| Dubai Islamic Bank | 131,284 | 114,968 |
| Abu Dhabi Islamic Bank | 76,808 | 78,211 |
| Union National Bank | 71,520 | 73,714 |
| Mashreqbank | 64,645 | 60,994 |

***Source: 2016 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2017) of each bank.***

## Real Property

The Bank owns a multi-storey building in Dubai, which is fully occupied by the Bank as its corporate headquarters. The Bank also owns buildings in Abu Dhabi, Ajman and Dubai, each of which is partially occupied by the Bank. The total cost of real property assets owned by the Bank as at 31 December 2016 was AED 1,109 million with accumulated depreciation of AED 414 million, giving a net book value of the Bank's real estate assets as of such date of AED 695 million. The Bank also owns land, which was acquired in settlement of debt. As at 31 December 2016, the book value of such properties was AED 113 million.

## Capital Expenditure

For the period ended 30 September 2017, the Bank incurred capital expenditure amounting to AED 253 million and for the year ended 31 December 2016, the Bank incurred approximately AED 136 million of capital expenditure.

## Capital Adequacy

In addition to existing Basel II guidelines, The UAE Central Bank, as per Basel III guidelines requires all UAE banks to maintain a minimum total capital adequacy ratio 10.50 per cent.. Effective from 1 February 2017, within this minimum capital adequacy ratio, banks are required to maintain a 7 per cent. minimum common equity Tier 1 ratio and a 8.5 per cent. minimum Tier 1 Capital ratio. Additionally, banks are required to maintain a 2.5 per cent. Capital Conservation Buffer, as per transitional arrangement; the total Capital adequacy ratio including Capital Conservation Buffer is 11.75 per cent. in 2017 increasing to a minimum total capital adequacy ratio of 12.375 per cent. in 2018 and 13.00 per cent. in 2019. Further, the banks classified as Domestic systemically important banks ("**D-SIBs**") will be required to hold an additional capital buffer, as per transitional arrangement in percentage of individual capital surcharge, with 50 per cent. to be taken in 2017, 75 per cent. in 2018 and 100 per cent. in 2019. Further, the banks may require the maintenance of a countercyclical buffer between 0 per cent. to 2.50 per cent. as per Central Bank advice.

As at 30 September 2017, the Bank had a total capital adequacy ratio of 18.0 per cent., a Tier I capital adequacy ratio of 17.1 per cent. and a Tier II capital adequacy ratio of 0.9 per cent, which are all above the minimum UAE Central Bank requirements. The Bank's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital adequacy ratio requirements. The principal difference between the UAE Central Bank's guidelines and Bank of International Settlements requirements is that, under the UAE Central Bank's guidelines, GCC government exposure is risk weighted at zero per cent. whereas, under the Bank of International Settlements guidelines, GCC government exposure is risk weighted according to the relevant country's credit rating.

## Anti-Money Laundering Policy

The Bank has detailed know-your-customer and anti-money laundering policies. The implementation of anti-money laundering and know-your-customer practices across the Bank's operations is monitored through a number of proprietary transaction monitoring reports. Accounts which appear on the reports are subject to investigation and reported to the UAE Central Bank if considered suspicious. In addition, the Bank undertakes annual training for all staff with regard to its anti-money laundering and know-your customer policies and regularly reviews its processes and policies to ensure that they meet international standards.

**Litigation**

On 8 July 2009 the Bank filed a recovery action against Ahmad Hamad Al Gosaibi & Brothers ("**AHAG**") in the Dubai courts for AED 1,457,164,610 (USD 397,047,577) in respect of the breach by AHAG of various agreements relating to facilities extended by the Bank.

On 30 January 2012, the Dubai Court of First Instance issued a judgment in favour of the Bank ordering AHAG, jointly with AHAG Partners, to pay the Bank the amount of AED 1,075,584,333 in addition to 5 per cent interest on the judgment accruing from the date of the filing of the action until final settlement. On 23 February 2012 AHAG and AHAG partners filed an appeal before the Dubai Appeals Court.

On 30 October 2013 the Dubai Appeals Court ruled in the Bank's favour and rendered a judgment against AHAG and AHAG partners for the full amount of the Bank's claim in addition to 9 per cent. interest on the judgment per annum from the date of action commencement until final settlement.

On 29 December 2013 AHAG and AHAG partners filed an appeal before the Cassation Court (Dubai's highest court). On 14 January 2015 the Cassation Court ruled as a final judgment to uphold the Dubai Appeals Court judgment against AHAG and AHAG Partners with respect to AED 1,075,584,333 plus interest at a rate of 9 per cent. per annum from the date of action commencement until final settlement. The Cassation Court also ruled to have the Dubai Appeals Court review the additional claim against AHAG for the AED 385,304,140 debt of The International Banking Corporation ("**TIBC**") (the "**TIBC Suit**") guaranteed by AHAB.

On 14 February 2017 the Dubai Appeals Court rendered a judgment against AHAG and AHAG Partners in the amount of AED 1,075,584,333 plus interest at a rate of 9 per cent per annum from 8 July, 2009 until final settlement. There are no further avenues for appeal in the Dubai courts with respect to this judgement and applications for enforcement of this judgment have been initiated.

**Tax**

The Bank is not subject to tax in the UAE, whether corporate or otherwise. The Bank may be subject to tax in other jurisdictions where it operates.

**Subsidiaries**

As at 30 September 2017, the Bank had 10 direct subsidiaries which included: Oman Insurance Company (PSC), Osool-a Finance Company (PJSC), Mindscape FZ LLC, Mashreq Securities LLC, Makaseb Funds Company BSC, Makaseb Funds Company BSC II, Mashreq Al-Islami Finance Company (PJSC), Injaz Services FZ LLC, Mashreq Capital (DIFC) Limited and Invictus Limited.

These entities together represent 1.9 per cent. of the group's consolidated statement of financial position as at 30 September 2017.

***Oman Insurance Company Limited***

Oman Insurance Company Limited ("**Oman Insurance Company**") is 63.94 per cent. owned by the Bank and is the largest insurance company in the UAE. It provides a wide range of insurance products and services. As at 31 December 2016, it had total assets of AED 7,256 million, compared to total assets of AED 6,163 million as at 31 December 2015. In the year ended 31 December 2016, Oman Insurance Company contributed net income of AED 51.7 million to the Bank (after non-controlling interests), compared to contributed net income of AED 51.7 million for the year ended December 2015.

***Osool-A Finance Company (PJSC)***

The Bank owns 98 per cent. of the shares of Osool-A Finance Company (PJSC) ("**Osool**"), a consumer finance company with two branches in the UAE. Osool offers personal loan and vehicle finance products in the UAE. As at 31 December 2016, it had total assets of AED 173 million, compared to total assets of AED 169 million as at 31 December 2015. In the year ended 31 December 2016, Osool generated AED 4 million of net income, compared to a net income of AED 11 million in the year ended 31 December 2015. Currently no new business is booked in Osool-A Finance Co.

***Mindscape FZ LLC***

The Bank owns 99 per cent. of the shares in Mindscape Information Technology LLC ("**Mindscape**"), which provides technology solutions and support to the Bank, its subsidiaries and third parties. As at 31 December 2016, Mindscape had total assets of AED 482 million, compared to total assets of AED 116 million as at 31 December 2015. In the year ended 31 December 2016, Mindscape generated net income of AED 0.5 million (after non-controlling interests), compared to AED 10 million in the year ended 31 December 2015.

***Mashreq Securities LLC***

The Bank owns 99.98 per cent. of the shares in Mashreq Securities LLC ("**Mashreq Securities**"), a securities brokerage which is authorised to trade on the Dubai Financial Market and Abu Dhabi Finance Market. As at 30 September 2017, Mashreq Securities had total assets of AED 88 million, compared to total assets of AED 200 million as at 31 December 2016 and AED 183 million as at 31 December 2015. In the year ended 31 December 2016, Mashreq Securities generated net income of AED 7 million (after minority interests), compared to generated net income of AED 13 million in the year ended 31 December 2015. In the nine month period ended 30 September 2017, Mashreq Securities generated net income of AED 3 million.

***Mashreq Capital (DIFC) Limited***

The Bank owns 100 per cent. of the shares in Mashreq Capital (DIFC) Limited ("**Mashreq Capital**") which runs fixed income funds in the DIFC. In addition, Mashreq Capital was awarded a seat on the floor of the Dubai Mercantile Exchange on 3 May 2007. As at 31 December 2016, Mashreq Capital had total assets of AED 33 million.

***Injaz Services FZ LLC***

The Bank owns 100 per cent. of the shares in Injaz Services FZ LLC ("**Injaz**"), which is registered in the Dubai Outsourcing Zone and acts as the business processing outsourcing unit of the Bank. All back office functions of the Bank have been transferred to Injaz.

***Makaseb Funds Company BSC (C)***

The Bank owns 99.9 per cent. of the shares in Makaseb Funds, an asset management company based in the Kingdom of Bahrain which has the objective of creating and managing mutual funds. Makaseb Funds was registered with the Bahrain Ministry of Commerce on 22 December 2004. As at 31 December 2016, it had assets of AED 166 million under management.

***Mashreq Al-Islami Finance Company (PJSC)***

The Bank owns 99.8 per cent. of the shares of Mashreq Al-Islami Finance Company (PJSC) (formerly Al Badr Islamic Finance (PJSC)), which provides *Shari'a* compliant finance for personal consumer and commercial purposes. As at 31 December 2016, it had assets of AED 1,826 million and made a net profit of AED 70 million (after taking into account the non-controlling interest).

***Invictus Limited***

The Bank owns 100 per cent. of shares of Invictus Limited a special purpose vehicle incorporated in the Cayman Islands. As at 30 September 2017, Invictus Limited had assets of AED 323 million.

## MANAGEMENT AND EMPLOYEES

### Management

### Board of Directors

The Bank operates under the direction of a Board of Directors which meets every quarter. The Board of Directors is comprised of six elected members and is vested with the powers to manage the Bank and conduct its business in accordance with its objects and with Federal Law No. 2 of 2015, as amended, concerning commercial companies of the UAE, the Bank's articles of association and resolutions of the shareholders. The Chairman and four of the directors are non-executive directors, and only the Chief Executive Officer is an executive director. Two of the six directors are independent directors who are not related to the major shareholders, the Chairman or the Chief Executive Officer. The Board of Directors is elected as a body by the shareholders in an ordinary general meeting for a term of three years and each Director is eligible for re-election upon the expiration of that term. The Chairman and the Vice Chairman of the Bank are elected by the Board of Directors. The Board of Directors appoints a Chief Executive Officer who is responsible for implementing board resolutions and managing the day-to-day business of the Bank, although the overall responsibility for the direction and strategy of the business of the Bank remains vested in the Board of Directors.

The following table sets forth the names of the members of the Bank's Board of Directors, each of whom has been elected for a period of three years by shareholders in their Annual General Meeting held on 23 February 2015.

| Name | Position |
|---|---|
| Abdulla Bin Ahmad Al Ghurair | Chairman and President |
| Ali Rashid Ahmed Lootah | Vice Chairman (independent) |
| Abdul Aziz Abdulla Al Ghurair | Chief Executive Officer and Director |
| Sultan Abdulla Ahmed Al Ghurair | Director |
| Rashed Saif Ahmad Al Ghurair | Director |
| Rashed Saif Saeed Al Jarwan | Director (independent) |

Detailed below is brief biographical information on the members of the Bank's Board of Directors.

*Abdulla Bin Ahmad Al Ghurair*

Mr. Abdulla Bin Ahmad Al Ghurair was Managing Director (Chief Executive Officer) of the Bank between 1970 and 1991 and a Director of the Bank between 1991 and 1996. He has been Chairman of the Bank since 1996. He is a prominent businessman and industrialist. His business interests include real estate, food processing, construction and building materials, trading, contracting, shipping, printing and publishing.

*Ali Rashid Ahmed Lootah*

Mr. Ali Rashid Ahmed Lootah has been a Director of the Bank since 1996. He is a prominent member of a Dubai business family and is also the chairman of Nakheel PJSC, Vice Chairman of Osool Finance Company PJSC, a director of Mashreq Al-Islami Finance Company PJSC and director of Oman Insurance Company PSC.

*Abdul Aziz Abdulla Al Ghurair*

Mr. Abdul Aziz Abdulla Al Ghurair has been the Director and Chief Executive Officer of the Bank since 1991. He is a graduate of the California Polytechnic. He joined the Bank (then Bank of Oman) in 1977. He is a member of the board of directors of the Abdullah Al Ghurair Group of Companies and he is a Vice Chairman of the Higher Board of Dubai International Financial Centre (DIFC) and he is on the Board of Emirates Foundation, the chairman of Oman Insurance Company psc, the chairman of the UAE Banking Federation. Mr. Abdul Aziz Abdulla Al Ghurair is also the EX speaker of the UAE Federal National Council.

*Sultan Abdulla Ahmed Al Ghurair*

Mr. Sultan Abdulla Ahmed Al Ghurair has been a Director of the Bank since February 2012. He is a member of the board of directors of the Abdulla Al Ghurair Group of Companies.

*Rashed Saif Ahmad Al Ghurair*

Mr. Rashed Saif Ahmad Al Ghurair has been a Director of the Bank since February 2013. He is also a director of Saif Al Ghurair Group, Sahara Petrochemical Company (KSA) and AL Jazeera Petrochemical. He also holds the position of Chairman of Taghleef Industries Group.

*Rashed Saif Saeed Al Jarwan*

Mr. Rashed Saif Saeed Al Jarwan has been a Director of the Bank since July 2013. He is also a Director of Dana Gas, Emirates General Petroleum Corporation (EMARAT), Oman Insurance Company psc and DIFC Investments LLC.

The business address of the Directors of the Bank is Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE.

There are no potential conflicts of interest between the duties to the Bank of the Directors of the Bank listed above and their private interests or duties.

***Leadership Forum***

Management of the day-to-day operations of the Bank is the responsibility of the Leadership Forum. The Leadership Forum meets regularly to discuss the business strategy, business plans and performance, investment strategy and operations of the Bank and submits recommendations to the Board of Directors.

The following table sets forth the names of the senior officers of the Bank who comprised the Leadership Forum as at the date of this Base Prospectus.

| Name | Position |
|---|---|
| Abdul Aziz Abdulla Al Ghurair | Chief Executive Officer |
| Ali Raza Khan | Head of Corporate Affairs |
| Jan-Willem Sudmann | Head of International Banking Group |
| Ahmed Abdelaal | Head of Corporate and Investment Banking Group |
| Arif Usmani | Head of Risk Management |
| Nabeel Waheed | Head of Treasury and Capital Markets |
| Naseer A. Paracha | Head of Audit, Fraud and Lean Group |
| Sandeep Chouhan | Head of Operations and Technology |
| Subroto Som | Head of Retail Banking Group |

Other than the Chief Executive Officer, none of the members of the Leadership Forum is related to the major shareholders, the Chairman or the Chief Executive Officer. Detailed below is brief biographical information on the members of the Leadership Forum of the Bank.

***Senior Management Profile***

*Abdul Aziz Abdulla Al Ghurair - Chief Executive Officer*

See above under "*Board of Directors*".

*Ali Raza Khan - Head of Corporate Affairs*

Mr. Ali Raza Khan joined the Bank in 1980. He holds a Bachelor of Science degree from Kanpur University. He became a member of the Institute of Chartered Accountants of India in 1978. During the past 37 years, Mr. Khan has served in different positions within the Bank including as operations manager, central account division manager and head of the human resources division. As Head of Corporate Affairs, he is responsible for finance, planning, accounts, human resources and administrative functions in the Bank.

*Jan-Willem Sudmann - Head of International Banking Group*

Mr. Jan-Willem Sudmann joined the Bank in December 2015. He holds a masters degree in Economics from the University of Hamburg, Germany. Prior to joining the Bank, he worked with Commerzbank AG, Shanghai Branch as Managing Director. Prior to these assignments he was Head of International Products & Financial Institutions at Dresdner Bank AG, Frankfurt. He has more than twenty three years of commercial and investment banking experience.

*Ahmed Abdelaal - Head of Corporate and Investment Banking Group*

Mr. Ahmed Abdelaal is an alumnus of London Business School and holds a Masters of Business Administration. He joined the Bank in November 2017. Prior to joining the Bank, he was the Regional Head of Corporate Clients Coverage MENAT and Head of Commercial Banking UAE at HSBC. Prior to that he was Regional Head, Corporate Banking and Structured Finance, Large Corporate MENAT. He had been with HSBC for over a decade in progressively senior roles before joining the Bank. He has also worked for ABN Amro, American Express and Arab Bank.

*Arif Usmani – Head of Risk Management*

Mr. Arif Usmani is an alumnus of the Imperial College of Science and Technology, University of London and holds a B.Sc. (Hon) in Physics and he is an Associate of the Royal College of Science. He joined the Bank in November 2017 from Abu Dhabi Islamic Bank PJSC ("**ADIB**"), where he had been the Head of Wholesale banking since 2012. Before joining ADIB, he worked for over 30 years with Citigroup across various geographies such as Pakistan, Saudi Arabia, West Africa, Slovakia and Hong Kong.

*Nabeel Waheed - Head of Treasury and Capital Markets*

Mr. Nabeel Waheed joined the Bank in May 1996. He has a Bachelor of Science degree from Syracuse University, New York. Prior to joining the Bank, he was employed by Bank of America for 15 years; he was vice president and manager of investment banking and treasury between 1991 and 1996 with Bank of America, Pakistan.

*Nasser A. Paracha – Head of Audit, Fraud and Lean Group*

Mr. Paracha joined the Bank in October 1995. He is an alumnus of Harvard Business School (USA), having completed a General Management Program at HBS and has a Bachelors degree in Operational Research / Computing from The University of Leeds, United Kingdom. During his tenure, Mr. Paracha has served in different positions within the Bank including as Compliance Manager, Head of Compliance and Head of Audit. Prior to joining the Bank, he worked with Deutsche Bank AG in Karachi (Pakistan), as Assistant Manager - Corporate Banking.

*Sandeep Chouhan - Head of Operations and Technology*

Mr. Sandeep Chouhan joined the Bank in March 2015 as Head of the Operations and Technology Division. Prior to joining the Bank, he was the Chief Operating Officer for the Commercial Bank of Qatar, where he spent 7 years managing multiple teams across Qatar, Oman, UAE, Egypt and India

*Subroto Som - Head of Retail Banking Group*

Mr. Subroto Som joined the Bank in November 2015. Mr. Som is an alumnus of the IIT Delhi and has an MBA from IIM Ahmedabad. He has three decades of retail banking experience has held several senior business, risk and operations assignments such as Global Head SME Banking, Head of Consumer Banking, Seoul First Bank South Korea and Regional Head Consumer Banking Middle East & South Asia with Citi Bank and Standard Chartered both based in Dubai. Prior to joining the Bank he was with Boston Consulting Group, Singapore, where he was an advisor on banking, digital strategy and transformation.

There are no potential conflicts of interest between the duties to the Bank of the members of the Leadership Forum listed above and their private interests or duties.

**Board Remuneration**

The members of the Board of Directors of the Bank received AED 3.25 million in aggregate by way of board remuneration and benefits in kind during the year ended 31 December 2016.

**Employees**

As at 30 September 2017, the Bank employed 2,175 full-time staff, 972 of whom were employed in the Bank's overseas operations. In addition, as at the same date, the Bank's subsidiaries (excluding Oman Insurance Company) had 1,200 full-time employees in aggregate. The Bank has not experienced any strikes since its establishment and considers its relationship with its employees to be good.

The Bank has a variable pay scheme for all employees pursuant to which a performance bonus is awarded to top performers based on annual performance appraisals. The bonus paid is a function of the performance of the Bank, the performance of the respective unit for which the individual works and the individual's own performance.

The Bank has incentive plans for sales staff in various business segments. These incentives are paid on each sale booked, covering vehicle loans, personal loans, credit cards and investment products; in most cases, the Bank utilises a stepped incentive structure.

**Emiratisation**

The Bank supports the UAE government's mandate gradually to nationalise its employee work force. In order to move towards fulfilling this commitment, the Bank will give first priority to UAE nationals at all levels within the Bank, subject to the availability of requisite talent in the market. In line with the current UAE national work force demographics, entry level positions are generally filled by UAE nationals. Recruiting, developing and retaining UAE nationals is a focus area for the Bank.

**Transactions with related parties**

As at 30 September 2017, certain related parties (directors and major shareholders of the Bank and companies of which they are principal owners) were customers of the Bank in the ordinary course of business and, in the aggregate, had outstanding customers' deposits of AED 1,358 million (compared with AED 1,216 million as at 31 December 2016 and AED 1,401 million as at 31 December 2015), loans and advances, including Islamic financing, in the amount of AED 2,919 million (compared with AED 2,586 million as at 31 December 2016 and AED 1,540 million as at 31 December 2015) and letters of credit, guarantees and acceptances in the amount of AED 1,091 million (compared with AED 1,163 million as at 31 December 2016 and AED 2,014 million as at 31 December 2015). All such transactions were made on substantially the same terms, including as to interest rates and collateral, as loans prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

**Corporate Governance**

The Bank has in place corporate governance rules based on industry best practices, the UAE Commercial Companies Law No. 2 of 2015 as amended, UAE Central Bank regulations and the UAE Securities and Commodities Authority code on corporate governance.

The Bank takes its corporate governance obligations seriously and to that end the Board of Directors has appointed the following committees as an important element in the overall corporate governance framework of the Bank:

- Audit Committee of the Board, consisting of 3 non-executive directors; and
- Remuneration and Compensation Committee of the Board, consisting of 2 non-executive directors.

The Board of Directors has also established various management committees, which have delegated authority to manage the Bank's affairs on a day-to-day basis. The management committees are as follows:

- Audit and Compliance Committee;

- Asset and Liability Committee;
- Information Security Committee;
- Risk Committee;
- Human Resource Committee;
- Investment Committee; and
- Technology Committee.

Additionally, the Bank has well established policies and procedures documented in various manuals and supported by detailed Standard Operating Procedures. The Bank has a written code of conduct to be followed by all employees (including senior management) and adherence to it is monitored closely.

## OVERVIEW OF THE UNITED ARAB EMIRATES

### Introduction

The Emirate of Dubai ("**Dubai**" or the "**Emirate**") is one of seven Emirates which together comprise the Federation of the United Arab Emirates (the "**Federation**"). The Federation was established on 2 December 1971. On formation, the Federation comprised the following Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwain and Fujairah. Ras Al Khaimah joined in February 1972. The President of the UAE is Sheikh Khalifa bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi. The Ruler of Dubai is Sheikh Mohammad bin Rashid Al Maktoum who is also the Vice-President and Prime Minister of the UAE. The Emirates enjoy significant autonomy and each has its own budget. The UAE's federal budget is funded by Abu Dhabi and Dubai, the two richest Emirates.

Dubai is the second largest Emirate in the UAE after Abu Dhabi, and is situated on the west coast of the UAE in the south-western part of the Arabian Gulf. It covers an area of 3,900 square kilometres and, except for a tiny enclave in the Hajar Mountains at Hatta, Dubai comprises one contiguous block of territory.

The UAE as a whole extends along the West coast of the Arabian Gulf, from the coast of Saudi Arabia near the base of the Qatar peninsula in the West to Ras Al Khaimah in the North and across the Mussandum peninsula to the Gulf of Oman in the East, covering an area of approximately 83,700 square kilometres in total.

### Population

The population of the UAE, based on a census carried out in 2005 and according to the UAE National Bureau of Statistics (the "**NBS**"), was approximately 4.1 million, of whom approximately 1.3 million resided in Dubai. The NBS estimated the population of the UAE to be 8.3 million as at the middle of 2010. The Dubai Statistics Centre has estimated the population of Dubai to be 2.4 million as at the end of 2015.

The population of both the UAE and Dubai has grown significantly since 1975, reflecting an influx of foreign labour, principally from Asia, as the Emirates have developed. The table below illustrates this growth using official census data since 1975 for the UAE:

***Population of UAE:***

| | 1975 | 1980 | 1985 | 1995 | 2005 | 2010 |
|---|---|---|---|---|---|---|
| Total population | 557,887 | 1,042,099 | 1,379,303 | 2,411,041 | 4,106,427 | 8,264,070 |
| Dubai population | 183,187 | 276,301 | 370,788 | 689,420 | 1,321,453 | 1,905,476 |

Sources: Official UAE Census Data

***Estimated Population of Dubai:***

The table below sets out the estimated population of Dubai at the end of each of the periods indicated:

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Total population | 2,003,170 | 2,105,875 | 2,213,845 | 2,327,350 | 2,446,675 | 2,685,090 |

Source: Dubai Statistics Centre

The majority of the population of Dubai is estimated to be non-UAE nationals, mainly drawn from the Indian subcontinent, Europe and other Arab countries. As at 31 December 2015, approximately 69.6 per cent. of the population was estimated to be male and 30.4 per cent. female, reflecting the large male expatriate workforce.

According to the Dubai Statistics Centre, as at 31 December 2015, it was estimated that approximately 19.0 per cent. of the population of Dubai was 19 years of age or under, 24.2 per cent. of the population was between 20 and 29 years of age, 30.8 per cent. of the population was between 30 and 39 years of age, 17.3 per cent. of the population was between 40 and 49 years of age and 8.7 per cent. of the population

was 50 years of age or older. Education and training are an important strategic focus for Dubai. The literacy rate in Dubai for persons at or above the age of 10 was estimated at 97.4 per cent. in 2015.

**Governance, Legislation and Judiciary**

The original constitution of the UAE (the "**Constitution**") was initially provisional and provided the legal framework for the Federation. The Constitution was made permanent pursuant to a constitutional amendment in May 1996.

The major principle adopted by the Constitution was that jurisdiction for enacting substantive legislation was confined to the federal government, but the local governments of the seven Emirates were authorised to regulate those matters that were not the subject of legislation by the federal government.

Pursuant to Articles 120 and 121 of the Constitution, the federal government is responsible for foreign affairs; security and defence; nationality and immigration; education; public health; currency; postal, telephone and other communications services; air traffic control and the licensing of aircraft and a number of other matters including labour relations; banking; the delimitation of territorial waters; and the extradition of criminals. Federal matters are regulated through a number of specially created federal ministries which include the Ministries of Foreign Affairs, Defence, Justice, Finance and Economy. Although most of the federal government ministries are based in Abu Dhabi, many also maintain offices in Dubai. The UAE's monetary and exchange rate policy is managed on a federal basis by the UAE Central Bank. Article 122 of the Constitution states that the Emirates shall have jurisdiction in all matters not assigned to the exclusive jurisdiction of the Federation, in accordance with the provisions of Articles 120 and 121.

The individual Emirates are given flexibility in the governance and management of their own Emirates. The Constitution permits individual Emirates to elect to maintain their own competencies in certain sectors. Based on this flexibility, Dubai has elected to assume responsibility for its own education, public health and judicial systems. The natural resources and wealth in each Emirate are considered to be the public property of that Emirate. Each Emirate manages its own budget on an independent basis and no Emirate has any obligation to contribute to the budget of any other Emirate. Each Emirate makes contributions to the federal budget in agreed amounts.

The following are the key entities in the structure of the federal government of the UAE:

*Federal Supreme Council*

The UAE is governed by the Supreme Council of the Rulers of all the Emirates (the "**Supreme Council**"). This is the highest federal governing body and consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice-President of the UAE (for renewable five year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates, **provided that** the votes of both Dubai and Abu Dhabi are included in that majority, but matters that are purely procedural are decided by a simple majority vote.

The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy and approves the nomination of the Prime Minister and accepts his resignation. It also relieves him from his post upon the recommendation of the President.

The then Ruler of Abu Dhabi, Sheikh Zayed bin Sultan Al Nahyan, was elected in 1971 as the first President of the UAE and was re-elected as President for successive five year terms until his death in November 2004. The then Ruler of Dubai, Sheikh Rashid bin Saeed Al Maktoum, was elected in 1971 as the first Vice-President of the UAE and continued as Vice-President until his death in 1990. Sheikh Zayed bin Sultan Al Nahyan was succeeded by his son Sheikh Khalifa bin Zayed Al Nahyan as Ruler of Abu Dhabi and was elected as President of the UAE in November 2004 by the members of the Supreme Council. Sheikh Mohammed bin Rashid Al Maktoum became the Ruler of Dubai in January 2006 upon the death of his elder brother Sheikh Maktoum bin Rashid Al Maktoum who had ruled Dubai since 1990. He was also nominated by the President of the UAE, Sheikh Khalifa bin Zayed Al Nahayan, to be the next Prime Minister and Vice-President of the UAE in January 2006. The members of the Supreme Council accepted the President's nomination shortly thereafter.

*Federal Council of Ministers*

The Federal Council of Ministers (the "**Cabinet**") is described in the Constitution as the executive authority for the Federation and is responsible for implementing policy decisions of the Supreme Council. The Cabinet is the principal executive body of the Federation. The Constitution defines the responsibilities of the Cabinet, which includes the issuing of regulations, the preparation of draft laws and the drawing up of the annual federal budget.

Based in Abu Dhabi, the Cabinet is headed by the Prime Minister and consists of the Deputy Prime Minister and a number of other Ministers. These Ministers are normally selected (for no fixed term) by the approval of the Supreme Council on the recommendation of the Prime Minister.

*Federal National Council*

The Federal National Council (the "**FNC**") is a parliamentary body which comprises 40 members who are UAE nationals. Each Emirate appoints members for a particular number of seats based on its population and size. Abu Dhabi and Dubai have eight members each, Sharjah and Ras Al Khaimah have six members each and the other Emirates have four members each. The nomination of representative members is left to the discretion of each Emirate, and the members' legislative term is four calendar years. The members represent the UAE as a whole rather than their individual Emirates.

Presided over by a speaker, or one of two deputy speakers elected from amongst its members, the FNC has both a legislative and supervisory role under the Constitution. This means that it is responsible for examining and, if required, amending all proposed federal legislation, and is empowered to summon and to question any federal minister regarding ministry performance. One of the main duties of the FNC is to discuss the annual budget of the UAE. Although the FNC can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation by itself.

During 2006, reforms were made with a view to enhancing public participation in indirect elections to the FNC. Under these reforms, the Ruler of each Emirate selects an electoral college whose members are at least one hundred times the number of FNC members for the Emirate. The members of each electoral college elect half of the FNC members for their Emirate, with the remainder being appointed by the Ruler.

*Legal and Court System*

There are three primary sources of law in the UAE, namely: (i) federal laws and decrees (applicable in all seven Emirates); (ii) local laws and decrees (i.e. laws and regulations enacted by the Emirates individually); and (iii) *Shari'a* (Islamic law). The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government of each Emirate can apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter-Emirate disputes and disputes between the federal government and the Emirates.

In accordance with the Constitution, three of the seven Emirates (Abu Dhabi, Dubai and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE, and these courts have sole jurisdiction to hear cases brought in the respective Emirates. The court system in Dubai is comprised of: (i) a Court of First Instance; (ii) a Court of Appeal; and (iii) a Court of Cassation.

***Emirate of Dubai***

The laws of Dubai are passed by Decree of H.H. The Ruler of Dubai, Sheikh Mohammed bin Rashid Al Maktoum, who is also the Vice-President and Prime Minister of the UAE. The Crown Prince of Dubai is Sheikh Hamdan bin Mohammed Al Maktoum. The Deputy Rulers are Sheikh Hamdan bin Rashid Al Maktoum and Sheikh Maktoum bin Mohammed Al Maktoum.

The key entities in the structure of the Government are: (i) The Ruler's Court; (ii) the Supreme Fiscal Committee (the "**SFC**"); and (iii) the Executive Council. The Dubai Department of Economic Development (the "**DED**") and the Dubai Department of Finance (the "**DOF**") are administrative bodies.

*The Ruler's Court*: Except in relation to applicable federal laws, H.H. The Ruler of Dubai is the sole legislator for the Emirate and all Dubai laws are passed by His Highness after drafts of the laws have been approved by The Ruler's Court in consultation with the Executive Council. All other matters that require the involvement of H.H. The Ruler of Dubai are channelled through The Ruler's Court.

*Supreme Fiscal Committee*: The SFC was established in November 2007 to formulate the fiscal policies of the Government of Dubai and to regulate Government of Dubai borrowings. The SFC is authorised to approve borrowings by the Government of Dubai and Government of Dubai-owned entities on behalf of the Government of Dubai. The SFC also aims to improve coordination between various Government of Dubai entities, and to enable government entities to meet their respective development targets in a cost efficient manner.

*Executive Council*: The Executive Council seeks to ensure coordination amongst Government of Dubai departments such as the courts, the police, the Health Authority, the Land Department, the Department of Civil Aviation, the DED and the Department of Tourism and Commerce Marketing. The Executive Council works with these departments to implement an overall strategy for the Government of Dubai, while considering the requirements and strategies of each particular department. In addition, the Executive Council works with the DOF to prepare an overall budget to fund the requirements of the various government departments. In addition to this broad coordination role, the Executive Council also recommends new laws and regulations, and is involved in the implementation of laws promulgated at both the Emirate and federal levels.

*Department of Economic Development*: The DED is a regulatory and administrative body responsible for licensing and regulation of the business sector. All businesses operating in Dubai are required to be registered with and licensed by the DED. The DED also helps formulate Government of Dubai policy in relation to economic planning and the promotion of Dubai as a business centre. The DED works closely with relevant government bodies such as the Ministry of Labour and the Real Estate Regulatory Authority.

*Department of Finance*: The DOF is the local ministry of finance and treasury for the Government of Dubai. All revenues of the Government of Dubai are collected within the DOF and all Government of Dubai authorities are funded through the DOF. In addition, the DOF also functions as an administrative office of the SFC for executing and monitoring compliance with the SFC's decisions. The Investment Corporation of Dubai is the principal investment entity of the Government of Dubai.

**Strategy of Dubai**

Since the establishment of the UAE in 1971, Dubai has developed its status as a major city, enhancing the wellbeing of its people and creating an environment that attracts businesses and individuals. To support, maintain and develop this status, the Government of Dubai intends to focus on: (i) achieving comprehensive development and building human resources; (ii) promoting economic development and government modernisation; (iii) sustaining growth and prosperity; (iv) protecting UAE nationals' interests, the public interest and well-being; and (v) providing an environment conducive for growth and prosperity in all sectors.

In 2007, the Government of Dubai adopted a set of guiding principles for the various sectors that comprised the Dubai Strategic Plan 2015 (the "**DSP 2015**"). The aim of the DSP 2015 was to ensure an understanding of the Government of Dubai's vision among all government entities and a common framework for the operations of these entities. The DSP 2015 focused on the core areas of economic development, social development, security, justice and safety, infrastructure, land and development, and government excellence.

Following the end of the DSP 2015 timeframe, the Government of Dubai launched the Dubai Plan 2021 (the "**DP 2021**"). The key principles for the development of the DP 2021 were to develop a plan that would drive Dubai to be among the best cities in the world; identify and adopt best practices in national strategic planning; develop a plan that can be measured and assessed by all constituents; and adopt a development approach that engaged the various constituents and stakeholders involved in or affected by the DP 2021. The DP 2021 focuses on the economy, the society, the people, the experience, the government and the place.

**International Relations**

Pursuant to Articles 120 and 121 of the UAE Constitution, foreign policy and international relations are federal matters and, accordingly, Dubai does not enter into bilateral agreements with foreign governments.

The foreign policy of the UAE is based upon a set of guiding principles, laid down by the country's first President, Sheikh Zayed bin Sultan Al Nahyan. He derived these principles from his belief in the need for justice in international dealings between states, including the necessity of adhering to the principle of non interference in the internal affairs of others and the pursuit, wherever possible, of peaceful resolution of disputes, together with support for international institutions, such as the United Nations (the "**UN**").

Within the Arabian Gulf region, and in the broader Arab world, the UAE has sought to enhance cooperation and to resolve disagreement through the pursuit of dialogue. Thus, one of the central features of the UAE's foreign policy has been the development of closer ties with its neighbours in the Arabian Gulf region. The GCC, which comprises the UAE, Kuwait, Saudi Arabia, Bahrain, Qatar and Oman, was founded at a summit conference held in Abu Dhabi in May 1981.

At the broader level of the Arab world as a whole, the UAE is committed to rebuilding a sense of common purpose amongst both its people and its governments and, to this end, has supported the strengthening of common institutions, such as the League of Arab States. Beyond the Arab world, the UAE has pursued a policy of seeking, wherever possible, to build friendly relations with other nations, both in the developing and in the industrialised world. The UAE also maintains cordial relations with other regional states and has established good relations with the United States of America and the European Union as well as with developing nations in Africa and many of the countries of the former Soviet Union. The UAE has also entered into a number of bilateral agreements with other countries (such as the UAE's nuclear cooperation agreement with the United States of America that provides the foundation for the UAE's civilian nuclear energy programme and provides a legal framework for commerce in civilian nuclear energy between the two countries).

Since its establishment, the UAE has played an active role in the provision of financial aid to developing countries and has been a contributor of emergency relief to countries and areas affected by conflict and natural disasters. The philosophy behind the aid policy is two-fold: first, the provision of help for the needy is a duty incumbent on all Muslims and, second, the country's policy on utilisation of the revenues from its oil and gas production has always included a component that such revenues should be devoted, in part, to helping other countries which have fewer natural resources.

The UAE is an active participant in a number of multi-lateral developmental institutions, including the International Bank for Reconstruction and Development (the "**World Bank**"), the IMF, the International Development Agency and regional bodies like the OPEC Fund for International Development, the Arab Gulf Fund for the UN, the Arab Bank for Economic Development in Africa, the Abu Dhabi-based Arab Monetary Fund and the Islamic Development Bank. In addition, the UAE is a member of various international organisations including, amongst others, the GCC, the UN, the League of Arab States, the Organisation of Islamic Countries, the Organisation of Arab Petroleum Exporting Countries, OPEC, the World Health Organisation, the International Organisation for Industrial Development, the World Trade Organisation and the Asia- Pacific Economic Cooperation.

The UAE enjoys good relations with the other states in the GCC. However, the UAE has an ongoing dispute with Iran and is in continuing discussions with Saudi Arabia over border issues. Since 1971, the three Gulf islands of Abu Musa and Greater and Lesser Tunb have been occupied by Iran. The UAE believes that these islands should be returned to the Emirate of Sharjah, which claims sovereignty over them, and is seeking to resolve the dispute through bilateral negotiations or a reference to international arbitration.

The UAE is also seeking, through negotiation, to resolve issues related to the 1974 provisional agreement (as yet unratified) with Saudi Arabia on the border between the two countries, which the UAE believes should be substantially amended. In addition, the UAE is involved in discussions with the governments of Saudi Arabia and Qatar over a maritime corridor which Qatar has purported to grant to Saudi Arabia, from within Qatar's own maritime waters, but which crosses part of the route of the gas pipeline between Qatar and the UAE. Further, the UAE, along with other Arab states, is currently participating in the Saudi Arabian led military intervention in the Republic of Yemen which began in 2015 in response to requests

for assistance from the Yemeni government. The UAE is also a member of another Saudi Arabian led military coalition formed in December 2015 to combat Islamic extremism and, in particular, Islamic State.

**UAE Credit Ratings**

Since July 2007, Moody's has upheld its long-term UAE credit rating of Aa2. The UAE is not rated by any of the other rating agencies.

**Economy of the UAE**

Based on IMF data (extracted from the World Economic Outlook (October 2016)), real GDP growth in the UAE increased by 5.8 per cent. in 2013, 3.3 per cent. in 2014, 3.8 per cent. in 2015 and 3 per cent. in 2016. Based on the same source, the IMF estimated that real GDP in the UAE would increase by 1.3 per cent. in 2017.

Although it has one of the most diversified economies in the GCC, the UAE's wealth remains largely based on oil and gas. According to OPEC data, at 31 December 2016, the UAE had approximately 6.6 per cent. of the world's proven crude oil reserves. According to preliminary data produced by the UAE Federal Competitiveness and Statistics Authority and the UAE Central Bank, crude oil and natural gas accounted for 21.3 per cent. of the UAE's GDP and 16.9 per cent. of the total value of the UAE's exports (including re-exports) in 2016.

Whilst fluctuations in energy prices do have a bearing on economic growth, the UAE is generally viewed as being less vulnerable than some of its GCC neighbours, primarily due to the growth in the services sector (with real estate, tourism, trade, transportation and government services being the main growth drivers of the sector).

On 27 May 2017, Moody's Investors Service Singapore Pte. Ltd. affirmed the UAE's long-term credit rating of Aa2 (with a negative outlook). The principal reason cited for this high investment grade rating is the assumption that the obligations of the UAE federal government will be fully supported by the Emirate of Abu Dhabi. The UAE is not rated by any other rating agency.

The MSCI Emerging Markets Index classifies the UAE as an "emerging market" economy (compared to the previous classification of "frontier market") with nine UAE companies (including the Dubai Financial Market and the ADX) included on the benchmark index.

**Economy of Dubai**

The Government of Dubai continues to focus on economic diversification and in this respect is targeting the travel and tourism, financial services, professional services, transport and logistics, trade and storage and construction sectors in particular as areas for future growth.

Since the middle of 2008 and reflecting the global financial crisis and sharp falls in international oil and gas prices, there have been significant declines in real estate sales prices and rental rates in the UAE as a whole and a significant slowdown in construction activity. These factors adversely impacted the Emirate's GDP in 2009 and 2010, with these sectors declining in real terms in 2009 by 19.8 per cent. and 19.5 per cent., respectively, and by 2.6 per cent. and 14.7 per cent., respectively, in 2010.

The Government of Dubai has taken steps to stabilise the real estate sector. On 23 March 2011, the Dubai World Group signed an agreement with its 80 creditors to restructure its financial obligations. On 24 August 2011, Nakheel PJSC ("**Nakheel**") completed a restructuring of its business and financial obligations. Pursuant to Nakheel's restructuring, the Government of Dubai, acting through the Dubai Financial Support Fund provided over U.S.$10 billion of additional funds to Nakheel to fund operations and settle outstanding liabilities (see "*The Government of Dubai's Support of Strategic Government Related Entities*" below). Following the successful completion of Nakheel's restructuring, the company is now owned by the Government of Dubai. In 2015 the real estate sector experienced a 3.5 per cent. growth rate.

Within Dubai, the trade sector contributed 28 per cent. of the Emirate's GDP in 2016. Other significant contributors to GDP in 2016 include the transportation and storage sectors, which contributed 12 per cent. to GDP and the local tourism sector, which contributed 11 per cent. to GDP. According to data published

by Dubai Economy, Dubai's economy grew by 2.85 per cent. in real terms in 2016 compared to average GDP growth of 2.4 per cent globally.

**Foreign Direct Investment and Free Zones**

In addition to several free zones which seek to attract foreign direct investment, as further described below, both local and foreign investors can establish a business presence in Dubai outside of the free zones.

There are many incentives for foreign corporate entities to set up in one of the free zones in Dubai. Foreign corporate entities can freely operate in the free zones and free zone entities can be 100 per cent. foreign owned, unlike entities registered elsewhere in the UAE which require various degrees of local participation. Free zone entities are exempt from paying corporate tax for 15 years, renewable for an additional 15 years, and individuals are exempt from paying income tax. There are no currency restrictions levied on the capital or the profits of free zone entities and 100 per cent. of their capital and/or profit can be repatriated. The ability to import into the free zones and to export abroad without any import duties, taxes or currency restrictions being levied on the free zone entity is a strong incentive for foreign corporate entities wishing to carry on such activities from and into the Middle East region to set up in one of the free zones.

The incentives to set up in a free zone include an easily available and relatively inexpensive workforce, no restrictions on the issuance of work permits and residence visas, availability of plots of land, prebuilt warehouses and offices on an annual lease basis, affordable workers' accommodation and minimal legal and administrative procedures to commence operations.

Each free zone in Dubai is governed both by federal law as well as the laws of Dubai. In addition, each free zone is authorised to adopt and administer regulations which pertain to entities operating and licensed in that individual free zone. The Dubai Free Zones Council was established in 2011 in order to increase coordination amongst the various Dubai free zones and to assist them in unifying the rules and regulations governing free zone companies, in particular the rules related to registration and licensing. In addition, Law No. 13 of 2011, introduced by the Government of Dubai in September 2011, provides an additional incentive to establish free zone companies in Dubai by clarifying the ability of free zone companies to conduct business onshore in the Emirate. The law includes provisions which formalise a licensing regime which will enable such free zone companies to operate onshore after registering with the Dubai Department of Economic Development.

Dubai has a number of free zones, of which the most important are the Jebel Ali Free Zone, the Dubai Technology and Media Free Zone, the Dubai International Financial Centre and the DED.

In addition, a number of sector-specific free zones for services and industry have been established, including Dubai Healthcare City, Dubai Textile City, Dubai Outsource Zone and Dubai Gold and Diamond Park.

**The Government of Dubai's Support of Strategic Government Related Entities**

The Government of Dubai owns, or has significant investments in, strategic Government-related entities ("**GREs**") which have played a significant role in supporting and facilitating the Government of Dubai's strategic development plan. Certain GREs have incurred indebtedness, including indebtedness from international financial institutions and in the international capital markets. As a result of the global financial crisis, sharp falls in international oil and gas prices, financial sector instability, limited access to credit and the significant decline in real estate values, both globally and in the Emirate of Dubai and the UAE, certain GREs have suffered from asset value deterioration, limited cash flow and have also experienced liquidity issues. Whilst not legally obliged to do so (under any guarantee or otherwise), the Government of Dubai announced its intention to support certain entities in order to maintain stability in the UAE economy, the banking system and investor confidence and protect stakeholders.

On 25 March 2010, in light of the severe financial difficulties faced by Dubai World and its subsidiaries and Nakheel, the Government of Dubai, Dubai World and Nakheel publicly announced proposals for the restructuring of the liabilities of Dubai World and its subsidiaries and Nakheel. It confirmed that the proposals followed a comprehensive analysis of the circumstances facing each company, and were developed in the interests of all stakeholders, including customers, contractors, employees and creditors.

The Government of Dubai's announcement further explained that the DFSF would support the restructuring proposals with significant financial resources, including additional funding of up to U.S.$9.5 billion over the restructuring period, sourced from: (i) U.S.$5.7 billion, which was remaining from a loan previously made available by the Government of Abu Dhabi; and (ii) internal Government of Dubai resources.

***Dubai World Restructuring***

On 23 March 2011, Dubai World signed an agreement with each of its lenders to restructure its financing facilities. Under the terms of the two-tranche debt repayment plan, creditors were to receive approximately $4.4 billion in five years while the second tranche for approximately $10.3 billion was to be repaid in eight years. In March 2015, Dubai World prepaid the entire first tranche while the balance of the second tranche was extended (inter alia, with additional collateral and better pricing) and is to be repaid by 2022.

***Expo 2020***

Dubai will host the World Expo in 2020. Hosting Expo 2020 is anticipated to provide a boost to medium-term growth and to help promote one of the Government of Dubai's broader economic strategies of growing its tourism and hospitality sector over the next few years.

The official impact assessment report indicates that nearly U.S.$24 billion (AED 88 billion) could be added to Dubai's economy between 2014, when Expo 2020 was announced, and 2021. Using official Government spending estimates, Expo 2020 is expected to add 0.5 per cent. per year to real GDP growth between 2015 and 2017, rising to 1.0 per cent. per year between 2018 and 2020. Amongst other things, Expo 2020 is intended to help maintain Dubai's growth momentum by providing a firm timetable for infrastructure delivery and a platform to market Dubai as a regional tourism, trade and business hub in the mid- to long-term.

***Nakheel Restructuring***

On 24 August 2011, Nakheel completed a restructuring of its business and financial obligations. Pursuant to Nakheel's restructuring, the Government of Dubai, acting through the DFSF, provided over U.S.$10 billion of additional funds to Nakheel to fund operations and settle outstanding liabilities. Following the successful completion of Nakheel's restructuring, the company is now owned by the Government of Dubai.

## THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION

### Overview

The global financial crisis had an effect on the UAE banking sector and the key concerns facing the sector included a liquidity shortage and a fall in real estate and equities prices. Although the UAE could be viewed as an over-banked market, even by regional standards, there has traditionally been little impetus for consolidation. The UAE's membership of the World Trade Organisation ("**WTO**") will require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

As a banking regulator, the UAE Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the UAE Central Bank.

Historically, the UAE Central Bank does not act as a "lender of last resort" instead this role tends to fall on the individual Emirs of each Emirate.

### Characteristics of the Banking System

#### *Lack of Consolidation*

The UAE may be seen as being over-banked with 49 different banks (comprised of 23 locally-incorporated banks and 26 foreign banks) licensed to operate inside the UAE (excluding the Dubai International Financial Centre (the "**DIFC**")), serving a population estimated to be in the region of approximately 9 million people. Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to occur as a result of banks facing financial difficulties and some commentators suggest that the recent financial crisis has created more favourable conditions for consolidation. The federal structure of the UAE has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007, the UAE's second and fourth largest banks, Emirates Bank International PJSC and National Bank of Dubai PJSC merged.

The relatively small size of most UAE banks has sometimes hindered them from competing for large financing deals in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, possibly even creating banks with pan-Gulf franchises.

#### *Domestic Focus*

The UAE-incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross border business.

With a large number of banks chasing a limited number of wholesale lending opportunities, most banks have turned to retail banking, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and Internet banking services. As a consequence, IT costs have been a prominent feature of many banks' expenses.

***Limited Foreign Ownership***

In 1987, the Federal Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the UAE Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

***Exposure to the Oil Sector***

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

***Islamic Banking***

*Shari'a* (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates Islamic Bank, Dubai Bank, Noor Islamic Bank, Sharjah Islamic Bank, Osool Finance and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer *Shari'a* compliant products.

***Legal Environment***

There are three primary sources of law in the UAE: federal laws and decrees, local laws and *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government will apply his or its own rules, regulations and practices.

***Supervision of Banks***

The main piece of legislation covering the banking system is Union Law No. 10 of 1980 (the "**Union Law**") which established the UAE Central Bank. The UAE Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds – such as long-term liquidity or equity support – have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the Government of Abu Dhabi would ultimately stand as *de facto* defender of the currency and the "lender of last resort".

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue government debt. However, the UAE Central Bank does issue certificates of deposit ("**CDs**") to the banks, denominated in both U.S. dollars and UAE dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the UAE Central Bank at any time. In 2007, the UAE Central Bank introduced an auction system and allowed U.S. dollar drawings against UAE dirham CD holdings.

The UAE dirham is linked to the International Monetary Fund's Special Drawing Right. However, the U.S. dollar is the intervention currency and, in reality, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices.

The UAE Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 4 of 2002 regarding the Criminalisation of Money Laundering. It has established an Anti-Money Laundering and Suspicious Cases Unit which acts as the financial intelligence unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee (the "**NATC**"). The NATC serves as a UAE inter-agency liaison.

Although the UAE Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC. The UAE Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

***Lack of Developed Capital Markets***

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch on their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Exchange (both of which were established in 2000), have grown rapidly over recent years, such growth was affected by the recent global financial crisis.

In 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009 the Dubai Financial Market announced its intention to acquire NASDAQ Dubai, and the acquisition was completed in July 2010.

***Government Involvement***

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to happen in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

***Expatriate Workforce***

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 95 per cent. of the workforce. The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the country has been an increasing concern for the UAE Federal Government and as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

***Accounting Standards***

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January 2008. As per the Financial Stability Report for 2014 published by the UAE Central Bank, it has embarked on a process of updating its regulatory framework in line with Basel III standards and international best practices. As per the Financial Stability Report for 2014

published by the UAE Central Bank, it has embarked on a process of updating its regulatory framework in line with Basel III standards and international best practices.

***Structure of the Banking System***

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "**National**" banks, of which there are currently 23, are required to be public shareholding companies with a minimum share capital of AED 40.0 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there are currently 28, need to demonstrate that at least AED 40.0 million has been allocated as capital funds for their operations in the UAE.

**Recent Trends in Banking**

***Profitability***

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the global financial crisis, may have represented a risk to the UAE banking system. Equity prices declined generally in the UAE in 2008 but, more recently, have rebounded with the ADX's General Index declining from 2,719.9 at 31 December 2010 to 2,402.3 at 31 December 2011 before increasing to 2,630.9 at 31 December 2012, 3,551.2 at 30 June 2013, 4,528.93 at 31 December 2014, 4,723.23 at 30 June 2015, 4,300.18 at 31 October 2016 and 4,481.44 at 1 November 2017 (source: www.adx.ae) and the Dubai Financial Market index declining from 1,630.5 at 31 December 2010 to 1,353.4 at 31 December 2011 before increasing to 1,662.5 at 31 December 2012, 2,222.6 at 30 June 2013, 3,774.00 at 31 December 2014, 4,086.83 at 30 June 2015, 3,32.41 as 31 October 2016 and 3,635.85 at 31 October 2017 (source: www.dfm.ae). During 2008 to 2010, a number of banks were also affected by the impact of mark to market accounting rules on their international investment portfolios. However, return on equity for most UAE banks compares well internationally, reflecting the high margins that can be earned, particularly on retail lending and low cost income ratios.

***Liquidity***

The UAE Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have adequate systems and controls to manage their liquidity positions, as well as contingency plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum loan deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time based customer deposits made by private individuals or private sector companies. According to data made available by the UAE Central Bank, together, these deposits constituted approximately 75.3 per cent. of total deposits of the UAE banking sector as at 30 September 2017. The UAE federal government and the public sector constituted approximately 24.7 per cent. of total deposits within the UAE banking sector as at 30 September 2017 (source: UAE Central Bank Statistical Bulletin September 2017).

In response to the global financial crisis of 2008, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established an AED 50.0 billion liquidity facility which banks can draw upon subject to posting eligible debt securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The UAE Central Bank also established a CD repo facility under which banks can use CDs as collateral for dirham or U.S. dollar funding from the UAE Central Bank.

In addition to these measures, the UAE federal government also provided AED 50.0 billion in deposits to UAE banks (as part of a larger AED 70.0 billion package) which, at the option of the banks, can be converted into Tier II capital in order to enhance capital adequacy ratios. A number of banks in the UAE

exercised this option and converted the UAE federal government deposits made with them into Tier II capital.

In line with Basel III requirements, the UAE Central Bank issued the Central Bank Notice No. 33/2015 on liquidity requirements on 27 May 2015 (the "**Liquidity Notice**") which entered into force in the UAE on 1 July 2015 and includes a set of qualitative and quantitative liquidity requirements for UAE banks. The qualitative requirements set out in the Liquidity Notice elaborate on the responsibilities of a UAE bank's board of directors and senior management as well as the overall liquidity risk framework. The regulations are intended to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee for Banking Supervision recommendations and international best practices. These requirements include the following:

- *Responsibilities of the board of directors*:
    - to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
    - to be familiar with liquidity risk management with at least one board member having detailed understanding of liquidity risk management; and
    - to ensure the clear articulation of liquidity risk tolerance in line with the relevant UAE bank's objectives, strategy and risk appetite.
- *Responsibilities of Senior Management*:
    - to develop strategies, policies and practices to manage liquidity risk in accordance with the liquidity risk tolerance set by the board of directors;
    - to review the UAE bank's strategy and to report to the board of directors on regulatory compliance on a regular basis; and
    - to manage liquidity risk in a prudent manner using all available liquidity risk management tools.
- *Liquidity risk framework*:

  The Liquidity Notice requires each UAE bank to have a robust liquidity risk framework which comprises the following elements:

    - sound processes and systems to identify, measure, monitor and control liquidity risk in a timely and accurate manner;
    - a robust liquidity risk management framework (which must be shared with the UAE Central Bank upon request) with limits, warning indicators, communication and escalation procedures;
    - regular stress testing of portfolio for a variety of scenarios (both institution specific and market-wide); results to be communicated to the board of directors and the UAE Central Bank on request;
    - incorporation of liquidity costs, benefits and risks into product pricing and approval processes;
    - establishment of a forward looking funding strategy with effective diversification of funding sources and tenors;
    - setting of formal contingency funding plan which clearly set out strategies for addressing liquidity shortfalls in emergency situations (and which must be shared with the UAE Central Bank upon request);
    - establishment of an adequate cushion of unencumbered, highly liquid assets as insurance against range of liquidity stress scenarios; and

- a transfer pricing framework (which is commensurate with the bank's liquidity risk tolerance and complexity) developed to reflect the actual cost of funding.

The quantitative requirements set out in the Liquidity Notice are intended to ensure that each UAE bank holds a minimum level of liquid assets which allow it to sustain a short term liquidity stress (in circumstances both specific to that bank and market wide). In particular, the requirements include two interim ratios which are intended to apply until the Basel III Liquidity Coverage Ratio and Net Stable Funding Ratio come into effect. These include the following:

| | **Ratio** | **Applicability Period** |
|---|---|---|
| Interim ratios | Liquid Asset Ratio (("**LAR**") >= 10 per cent) | 1 January 2013 – 30 June 2015 |
| | Eligible Liquid Assets Ratio (("**ELAR**") >= 10 per cent) | 1 July 2015 onwards |
| | Advances to Stable Resources Ratio (("**ASRR**") < = 100 per cent) | 30 September 1986 onwards |
| Basel III ratios | Liquidity Coverage Ratio (("**LCR**") >= 100%) | January 2019 onwards |
| | Net Stable Funding Ratio (("**NSFR**") >= 100%) | January 2018 onwards |

The UAE Central Bank's former liquid assets ratio ("**LAR**") was an interim ratio designed to apply until the LCR comes into effect (as described below). Following the entering into force of the Liquidity Notice, the LAR was replaced with the ELAR. Under the ELAR, UAE banks are required to hold an amount equivalent to at least 10 per cent. of their liabilities in high quality liquid assets (including cash held with the UAE Central Bank, the UAE Central Bank CDs and certain UAE local government and public sector entity publicly traded instruments).

The Liquidity Notice also included the option for UAE banks to apply to the UAE Central Bank to move to assessment and reporting of bank liquidity to the UAE Central Bank as against the LCR, in addition to the ELAR, with effect from 1 January 2016. Any UAE banks taking up this option were required to comply only with the ELAR until 1 January 2016, after which date they are required to move to a dual-compliance regime as to liquidity as against the ELAR and the LCR (subject to receipt of UAE Central Bank approval). The Bank has chosen to take up this option and is currently undergoing assessment by an external auditor of its LCR calculation policies and procedures.

The LCR represents a 30 days stress scenario with combined assumptions covering both bank specific and market wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30 days stress scenario. The LCR requires that UAE banks should always be able to cover the net cash outflow with high quality liquid assets ("**HQLAs**") at the minimum LCR determined by the UAE Central Bank. The Liquidity Notice describes in detail eligible HQLAs for this purpose.

The LCR was to be introduced on 1 January 2015 and the minimum requirement was to begin at 60 per cent., rising in equal annual steps of 10 percentage points to reach 100 per cent. on 1 January 2019. This graduated approach was designed to ensure that the LCR could be introduced without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

The ASRR is a long-standing ratio that recognises both the actual uses as well as the likely uses of funds in terms of the contractual maturity and behavioural profile of the sources of funds available to banks, in order to ensure that there are limited maturity mismatches and cliff effects.

The Net Stable Funding Ratio ("**NSFR**") is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets. It also requires an amount of stable funding to cover a portion of the relevant UAE banks contingent liabilities. The NSFR mirrors the Basel III NSFR standard. The NSFR identifies the key uses of funds and the different types of funding sources used by the UAE banks. It assigns available stable funding ("**ASF**") factors to the sources of funds and required stable funding ("**RSF**") factors to asset classes and off balance sheet contingent exposures. The assigned

ASF factor depends on the terms of funding and the perceived stability of the funding sources. The assigned RSF factor will depend on the liquidity of the asset being funded under a market-wide stress. Both factors will follow the Basel III NSFR standard.

On 15 April 2014, the UAE Central Bank introduced the Interim Marginal Lending Facility ("**IMLF**") which will enable non-Islamic UAE banks to use certain rated or UAE federal or local government or government entity-issued bonds/sukuks to access UAE Central Bank overnight liquidity in order to help their liquidity management during times of market stress.

The IMLF will let lenders use certain assets as collateral to obtain overnight loans from the UAE Central Bank. Eligible assets that can be used as collateral must be tradeable and include bonds, sukuk and securities issued by the UAE federal or local governments or government-related entities in individual Emirates, as well as by UAE banks and corporations. Securities issued by foreign governments, banks, corporates and supranational agencies can also be used as collateral, but must carry a minimum 'A' credit rating from one of the three main international rating agencies. Banks accessing the IMLF must borrow a minimum of AED 10 million and will be charged 100 basis points over the official UAE "Repo Rate".

***Position of Depositors***

There is no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE Federal Government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following therefrom, in May 2009 the FNC approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

***Prudential Regulations***

The UAE Central Bank has supervisory responsibility for banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the UAE Central Bank with more up to date information on credit, market and operational risks within the banking sector.

***Capital Adequacy***

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Basel II became effective in the UAE on 17 November 2009 by way of UAE Central Bank Circular Number 27/2009. Since 1993, the UAE Central Bank had imposed a 10 per cent. minimum total capital ratio on all UAE banks. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to its capital adequacy requirements, such that UAE banks were required to have a total capital adequacy ratio of at least 11 per cent., with a Tier I ratio of not less than 7 per cent., by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier I capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of at least 12 per cent., by 30 June 2010. Thereafter, through its circular dated 17 November 2009 introducing Basel II, the UAE Central Bank stated that it was expected that the main banks in the UAE would move to the Foundation Internal Rating Based approach under Basel II in due course. Through this circular, the UAE Central Bank reiterated that all banks operating in the UAE were required to maintain a minimum capital adequacy ratio of 11 per cent. at all times, increasing to 12 per cent. by 30 June 2010 and also laid out its expectations in relation to Pillar II and Pillar III of the Basel II framework. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital. Pursuant to the February 2017 Regulations, the Bank is required by the UAE Central Bank to maintain a minimum total capital adequacy ratio of 11.75 per cent., effective from 1 February 2017.

Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent. Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a

statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier I and Tier II capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III reforms began on 1 January 2013. However, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" (the "**January 2011 Press Release**") included an additional Basel III requirement (the "**Non-Viability Requirement**") as follows:

"The terms and conditions of all non-common Tier I and Tier II instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

(i) the governing jurisdiction of the bank has in place laws that:

  (i) require such Tier I and Tier II instruments to be written off upon such event; or

  (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(ii) a peer group review confirms that the jurisdiction conforms with clause (i); and

(iii) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (i).

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority."

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier I or Tier II instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013. As at the date of this Base Prospectus, the UAE Central Bank has (as set out in its Financial Stability Report for 2014) commenced the process of updating its regulatory framework in line with Basel III principles and international best practice. However, as at the date of this Base Prospectus, there has been no official proposal for the implementation of the Non-Viability Requirement in the UAE. In the absence of new UAE legislation or such a confirmation, the terms and conditions of the Notes may still need to provide for the Non-Viability Requirement in order to qualify as regulatory capital under Basel III.

In May 2016, the UAE Central Bank published the Consultation Document detailing the Basel III requirements expected to be followed by banks operating in the UAE, once applicable legislation has been implemented domestically. In particular, the Consultation Document outlines the general quantitative requirements expected to be followed by UAE banks, with regards to Regulatory Capital. It also outlines, amongst other things, the Regulatory Capital ratios that UAE banks will be expected to follow and adhere to, the individual UAE bank minimum capital conservation standards and the required disclosure standards expected to be made available by UAE banks with respect to Regulatory Capital.

On 23 February 2017, the UAE Central Bank published the February 2017 Regulations in the Official Gazette issue 612, which are effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with Basel III requirements, whilst implementing the measures contained in the Consultation Document. The February 2017 Regulations are supported by the Accompanying Standards which, as at the date of this Base Prospectus, are yet to be issued. The Accompanying Standards will elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy

requirements. Banks which are classified as D-SIBs by the UAE Central Bank will be required to hold additional capital buffers as notified to it by the UAE Central Bank. In addition, a bank may also be subject to additional capital add-on requirements following a Supervisory Review and Evaluation process of the UAE Central Bank. As at the date of this Base Prospectus, the UAE has not fully implemented the Basel III Reforms.

***Reserve Requirements***

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

***Credit Controls***

Banks are required to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

The UAE Central Bank's Retail Circular introduced regulations regarding bank loans and other services offered to individual customers. These regulations, amongst other things, impose maximum loan/income and loan to value ratios for retail products. For example, the regulations require that the amount of any personal consumer loan shall not exceed 20 times the salary or total income of the borrower with the repayment period not exceeding 48 months. These regulations may be amended in the future in accordance with the Mortgage Regulations (which were published in the Official Gazette on 28 November 2013 and entered into force on 28 December 2013, superseding notice no. 3871/2012 dated 30 December 2012), which specifies that the amount of mortgage loans for nonnationals should not exceed 75 per cent. of the property value for a first purchase of a home (with a value of less than or equal to AED 5 million), 65 per cent. of the property value for a first purchase of a home (with a value greater than AED 5 million) and 60 per cent. of the property value (irrespective of the value of the property) for second and subsequent homes. For UAE nationals, the corresponding 149 limits are set at 80 per cent. in respect of a first purchase of a home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent purchase (irrespective of the value of the property).

***Large Exposures***

The UAE Central Bank defines large exposures as any funded or unfunded exposures (less provisions, cash collaterals and deposits under lien).

On 11 November 2013, the UAE Central Bank issued a circular (the 2013 Large Exposure Limits Circular) amending certain of the large exposure limits (defined as a percentage of the bank's capital base). The 2013 Large Exposure Limits Circular entered into force on 30 January 2014. UAE banks have until 10 December 2018 to meet the revised limits set out therein. The 2013 Large Exposure Limits Circular maintained limits introduced by a UAE Central Bank circular published on 4 April 2012 (the "**2012 CBC**") of 100 per cent. of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent. limit to any single such borrower. The 2013 Large Exposures Circular introduced limits on lending by banks to their employees and introduced a prohibition on lending to a bank's professional advisers. Exposures above these limits are subject to approval by the UAE Central Bank. Set out below is a table showing a comparison between the exposure limits stipulated in the 2013 Large Exposure Limits Circular, following the 2012 CBC, and those in place before the 2013 Large Exposure Limits Circular came into force (defined as a percentage of the bank's capital base calculated under Basel II):

| | **New Limit** | | **Old Limit** | |
|---|---|---|---|---|
| | **Individual** | **Aggregate** | **Individual** | **Aggregate** |
| UAE Federal Government and their non-commercial entities | Exempt | Exempt | Exempt | Exempt |
| UAE local government and their non-commercial entities | No cap for UAE local government<br>25 per cent. for each non-commercial entity | 100 per cent. | 25 per cent. | 100 per cent. |

| | New Limit | | Old Limit | |
|---|---|---|---|---|
| | **Individual** | **Aggregate** | **Individual** | **Aggregate** |
| Commercial entities of federal government and UAE local government | 25 per cent. | 100 per cent. | 25 per cent. max and 15per cent. funded | 100 per cent. |
| Commercial or other (non-commercial) private sector entities and individuals | 25 per cent. max | None | 25 per cent. max 10 per cent. funded | None |
| Shareholders who own 5 per cent. or more of the bank's capital and related entities | 20 per cent. | 50 per cent. | 20 per cent. max 10 per cent. funded | 50 per cent. max 25 per cent. funded |
| Inter-bank Exposures of over one year | 30 per cent. | None | - | - |
| Bank's subsidiaries and affiliates | 10 per cent. | 25 per cent. | 25 per cent. | 10 per cent. |
| Board members | 5 per cent. | 25 per cent. | 5 per cent. | 25 per cent. |
| Bank Employees | Max of 20 months' salary | 3 per cent. | - | - |
| Bank's External auditors, consultants and lawyers | Not allowed | Not allowed | - | - |

### *Provisions for Loan Losses*

The Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., on the relevant amount (net of any eligible credit protection) respectively. Any retail and consumer loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. Corporate loans are required to be classified as non-performing by exercising mature judgment. In addition, pursuant to Circular 28/2010 concerning regulations for classification of loans and their provisions issued by the UAE Central Bank on 11 November 2010, all banks in the UAE are required to make general provisions for unclassified loans and advances equal to 1.5 per cent. of their credit risk-weighted assets by 2014. In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

## TAXATION

*The following is an overview of certain UAE tax considerations and Grand Duchy of Luxembourg withholding tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those jurisdictions or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### Dubai and the United Arab Emirates

The following is a general overview of the current tax law and practice in Dubai and the UAE (to the extent applicable in Dubai) ("**Dubai Law**") and does not constitute legal or tax advice. Prospective investors in the Notes are advised to consult their own tax advisers with respect to the tax consequences under the tax laws of the country in which they are resident, of the purchase ownership or disposition of the Notes or any interest therein.

Under existing Dubai Law, although an income tax decree has been enacted in Abu Dhabi and in Dubai (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)) which provides for tax to be imposed on the taxable income of all bodies corporate which carry on a trade or business, the regime is not currently enforced. In practice, only companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE have been required to pay tax. There are currently no withholding taxes required to be levied under UAE, Abu Dhabi or Dubai law in respect of payments on debt securities (including in relation to the Notes). In the event of the imposition of any withholding, the Bank has undertaken to gross-up any payments subject to certain limitations, as described in Condition 11 (*Taxation*).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to revise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

On 24 February 2016, the UAE Minister of State for Financial Affairs announced that, pursuant to a GCC-wide framework agreement on the implementation of VAT, the UAE will implement VAT at the rate of 5 per cent. from 1 January 2018. The UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No.8 of 2017) and became effective on 1 January 2018.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

### Grand Duchy of Luxembourg Taxation

#### *Luxembourg tax residency of the Noteholders and Couponholders*

A Noteholder or a Couponholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding of the Notes or Coupons, or the execution, performance, delivery and/or enforcement of the Notes or Coupons.

#### *Withholding Tax*

*Luxembourg resident individual Noteholders and Couponholders*

Under Luxembourg general tax laws currently in force, and subject to the law of 23 December 2005 below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes or Coupons, nor on accrued but unpaid interest in respect of Notes or Coupons, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes or Coupons held by Luxembourg resident holders of Notes, *provided that* the interest on the Notes or Coupons does not depend on the profit of a Luxembourg issuer. However, under the Luxembourg law dated 23 December 2005 (the "**Law**"), a 20 per cent. Luxembourg withholding tax is levied on interest payments made by Luxembourg based paying agents (as defined in the Law) to the immediate benefit of Luxembourg

individual residents. This withholding tax also applies on accrued interest received upon disposal, redemption or repurchase of the Notes or Coupons. Furthermore, pursuant to the Law, Luxembourg resident individuals acting in the course of the management of their private wealth who are the beneficial owners of interest payments made by a paying agent established outside Luxembourg in a Member State of either the European Union or the EEA, can opt to self declare and pay a 20 per cent. tax on these interest payments.

The withholding tax of 20 per cent. as described above or the 20 per cent. tax are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

*Luxembourg non-resident Noteholders and Couponholders*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest in the context of the holding, disposal, redemption or repurchase of the Notes or Coupons, nor on accrued but unpaid interest in respect of the Notes or Coupons, *provided that* the interest on the Notes or Coupons does not depend on the profit of a Luxembourg issuer.

**The Proposed Financial Transactions Tax (the "FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**"), for a directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in any Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of any Notes are advised to seek their own professional advice in relation to the FTT.

**Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes (foreign passthru payments) to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Bank) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (IGAs), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described

under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Notes.**

## SUBSCRIPTION AND SALE

Merrill Lynch International, Morgan Stanley & Co. International plc, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreq Capital (DIFC) Ltd., Mizuho International plc, Nomura International plc, *Société Générale* and UBS Limited (the "**Dealers**") have, pursuant to an amended and restated dealership agreement dated 23 January 2018 (the "**Dealership Agreement**"), agreed with the Bank a basis upon which the Bank may agree to sell and they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Dealership Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

### General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank nor any of the other Dealers shall have any responsibility therefor.

The Bank and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and the Bank and the Dealers do not assume any responsibility for facilitating any such distribution or offering.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the relevant Final Terms or Pricing Supplement.

With regard to each Tranche of Unlisted Notes or Notes which are the subject of a Pricing Supplement, the relevant Dealer will be required to comply with such other additional restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

### United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold any Notes, and will not offer and sell any Notes (a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution of all Notes of the Series of which such Notes are a part, as determined and certified as provided below, except in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who purchases Notes of a Series (or in the case of a sale of a Series of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Series to be purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Series. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/lead manager of the end of the distribution compliance period with respect to such Series.

Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases

Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms the relevant Dealer will be required to represent and agree that:

(a) except to the extent permitted under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (the "D Rules"), (i) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6);

(d) with respect to each affiliate that acquires Bearer Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and

(e) it will obtain from any distributor (within the meaning of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (other than a distributor that is one of its affiliates or is another Dealer), for the benefit of the relevant Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-paragraphs (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(a) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Bearer Notes; and

(b) in connection with the original issuance of the Bearer Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Bearer Notes.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

**Prohibition of Sales to EEA Retail Investors**

Unless the relevant Final Terms or the relevant Pricing Supplement (as the case may be) in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the relevant Final Terms or the relevant Pricing Supplement (as the case may be) in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(c) not a qualified investor as defined in the Prospectus Directive; and

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the relevant Final Terms or the relevant Pricing Supplement (as the case may be) in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Qualified investors*:** at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) ***Fewer than 150 offerees***: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or

(c) ***Other exempt offers***: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of

sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU and includes any relevant implementing measure in the Relevant Member State).

**United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold Notes, and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

**The People's Republic of China**

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) as part of the initial distribution of the Notes.

**Italy**

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of Commissione Nazionale per la Società e la Borsa ("**CONSOB**") Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the "**Banking Act**"); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

**United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

**Dubai International Financial Centre**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

**Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 11 or Article 12 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016 (the "**KSA Regulations**"), made through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

Investors are informed that Article 18 of the KSA Regulations place restrictions on secondary market activity with respect to the Notes, including as follows:

(i) a Saudi Investor (referred to as a "**transferor**") who has acquired Notes pursuant to a private placement may not offer or sell Notes to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

    (a) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

    (b) the Notes are offered or sold to a sophisticated investor; or

    (c) the Notes are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(ii) if the requirement of paragraph (i)(a) above cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Notes to the transferee if their purchase price

during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(iii) if the requirement in paragraph (ii) above cannot be fulfilled, the transferor may offer or sell Notes if he/she sells his entire holding of Notes to one transferee; and

(iv) the provisions of paragraphs (i), (ii) and (iii) above shall apply to all subsequent transferees of the Notes.

## GENERAL INFORMATION

### 1. Registered Office

The Bank's registered office is located at Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE, telephone number +971 4 222 333. The Bank's Commercial License Number is 208990 and its Commercial Registration Number is 40903.

### 2. Authorisation

The establishment of the Programme and the general terms of the issue of Notes thereunder were duly authorised by a resolution of the Board of Directors of the Bank dated 28 January 2004 and by a resolution of the shareholders of the Bank adopted at an extraordinary general meeting of the shareholders held on 27 January 2004. The increase in the maximum aggregate nominal amount of the Notes that may be outstanding under the Programme from U.S.$750 million to U.S.$2 billion and the issue and sale of Notes pursuant thereto was authorised by a resolution of the shareholders of the Bank adopted at an ordinary general meeting of the shareholders held on 8 March 2006 and by a resolution of the Board of Directors of the Bank dated 3 April 2006. The increase in the maximum aggregate nominal amount of the Notes that may be outstanding under the Programme from U.S.$2 billion to U.S.$5 billion was authorised by a resolution of the shareholders of the Bank adopted at an ordinary general meeting of the shareholders held on 7 March 2010. No authorisation by the shareholders of the Bank was required for the 2017 update of the Programme or the issue and sale of the Notes thereunder. Each issue of Notes under the Programme is subject to the approval of the Board of Directors of the Bank and must be authorised by a resolution of the Board of Directors of the Bank.

The Bank has given all notices and obtained all necessary consents, approvals, registrations, authorisations or other orders of regulatory authorities required under the laws and regulations of the UAE in connection with the establishment and amendment of the Programme. Any additional notices, consents, approvals, registrations, authorisations or other orders of regulatory authorities required in the UAE in connection with the issuance and sale of Notes in a Series which are required to be obtained prior to the Issue Date of such Notes will be obtained prior to such Issue Date.

### 3. Listing of Notes and Admission to Trading of Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) of the European Parliament and to be listed on the official list of the Luxembourg Stock Exchange.

### 4. Documents Available

So long as any Notes are outstanding under the Programme, copies of the following documents will, when published, be available from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

(i) Memorandum and Articles of Association (with a direct and accurate English translation thereof) of the Bank;

(ii) the audited consolidated financial statements of the Bank in respect of the financial years ended 31 December 2016 and 31 December 2015 (with a direct and accurate English translation thereof);

(iii) the most recently published audited annual consolidated financial statements of the Bank and the most recently published unaudited interim consolidated financial statements (if any) of the Bank;

(iv) the Deed of Covenant and the Agency Agreement (which contains the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons);

(v) a copy of this Base Prospectus; and

(vi) any future base prospectuses, prospectuses, information memoranda, supplements to the Base Prospectus and any Final Terms and Pricing Supplements (in the case of Unlisted Notes) (save that a Pricing Supplement will only be available for inspection by a Holder of such Note and

such Holder must produce evidence satisfactory to the Bank and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus.

In addition, the Base Prospectus and each Final Terms (but not, for the avoidance of doubt, any Pricing Supplement) will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Copies of the 2006 ISDA Definitions shall be available upon request from the registered office of the Bank.

5. **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and International Securities Identification Number (ISIN) in relation to each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms or, as applicable, Pricing Supplement. The relevant Final Terms or, as applicable, pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg.

6. **Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes will be calculated on an annual or semi-annual basis using the relevant issue price at the relevant issue date. It is not an indication of future yield.

7. **Significant or Material Change**

There has been no significant change in the financial or trading position of the Bank or the Bank and its subsidiaries as a whole since 30 September 2017.

There has been no material adverse change in the prospects of the Bank since 31 December 2016.

8. **Litigation**

Apart from the legal proceedings described on page 75 (see "*Description of the Bank - Litigation*"), neither the Bank nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Bank and its subsidiaries.

9. **Conflicts of Interest**

In accordance with the Commission Regulation ((EC) No. 809/2004), the Bank confirms that there are no potential conflicts of interest between the duties which its directors and/or members of its administrative, management and supervisory bodies owe to the Bank and their private interests and/or other duties which they have.

10. **Dealers Transacting with the Bank**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions and may perform services for the Bank and its affiliates in the ordinary course of business for which they may receive fees. In particular, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments

(including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank and its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank and its affiliates routinely hedge their credit exposure to the Bank and its affiliates consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## 11. Auditors

The auditors of the Bank are Deloitte & Touche (M.E.) – Dubai, a registered audit firm in the UAE, operating under professional licences issued by the Dubai Economic Department and the UAE Ministry of Economy. There is no professional institute of auditors in the UAE and, accordingly, Deloitte & Touche (M.E.) is not a member of a professional body in the UAE. All Deloitte & Touche (M.E.) professionals and partners are members of the institutes from where they received their professional qualification. The firm conducts its audits in accordance with International Standards on Auditing and other pronouncements of the International Federation of Accountants. The registered office of Deloitte & Touche (M.E.) - Dubai is Building 3, Level 6, Emaar Square, Downtown Dubai, Dubai, UAE. Deloitte & Touche (M.E.) – Dubai have audited the Bank's consolidated accounts, without qualification, in accordance with IFRS for each of the two financial years ended 31 December 2016 and 31 December 2015. The Bank's audited consolidated financial statements in respect of the financial year ended 31 December 2016 were approved at the annual general meeting of shareholders of the Bank which took place on 6 March 2017.

## 12. Material Contracts

Neither the Bank nor any of its subsidiaries has entered into any material contracts outside the ordinary course of business which could result in its being under an obligation or entitlement which is, or may be, material to the ability of the Bank to meet its obligations in respect of the Notes.

## 13. Passporting

The Bank may, on or after the date of this Base Prospectus, make applications for one or more certificates of approval under Article 18 of the Prospectus Directive as implemented in the Grand Duchy of Luxembourg to be issued by the CSSF to the competent authority in any Member State.

## ANNEX A: FORM OF FINAL TERMS

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** - Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s]/[s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s]/[s'] target market assessment) and determining appropriate distribution channels.]

**Final Terms dated [•]**

**MASHREQBANK PSC**

Issue of [•] [•]
under the U.S.$5,000,000,000
**EURO MEDIUM TERM NOTE PROGRAMME**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Base Prospectus dated 23 January 2018 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC, as amended (including by Directive 2010/73/EU and any relevant implementing measure in a relevant Member State) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the Bank's head office at Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE and copies may be obtained from the Issuing and Principal Paying Agent, The Bank of New York Mellon, London Branch, One Canada Square, London, E14 5AL, England. The Base Prospectus and these Final Terms will also be available for viewing in electronic form on the website of the Luxembourg Stock Exchange at www.bourse.lu.

### PART A – CONTRACTUAL TERMS

| | | | |
|---|---|---|---|
| 1. | (i) | Series Number: | [•] |
| | (ii) | Tranche Number: | [•]/[Not Applicable] |
| | (iii) | Date on which the Notes become fungible: | [•] |
| 2. | Specified Currency: | | [•] |
| 3. | Aggregate Principal Amount: | | |

| | | | |
|---|---|---|---|
| | (i) | Series: | [•] |
| | (ii) | Tranche: | [•]/[Not Applicable] |
| 4. | Issue Price: | | [•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]] |
| 5. | (i) | Specified Denominations: | [•] |
| | (ii) | Calculation Amount: | [•] |
| 6. | (i) | Issue Date: | [•] |
| | (ii) | Interest Commencement Date: | [[•]/Issue Date/Not Applicable] |
| 7. | Maturity Date: | | [•] |
| 8. | Interest Basis: | | [[•] per cent. Fixed Rate]<br>[[•] +/- [•] per cent. Floating Rate]<br>[Zero Coupon] |
| 9. | Change of Interest Basis: | | [For the period from and including the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) the Maturity Date, paragraph [13/14] applies/[Not applicable]] |
| 10. | Put/Call Options: | | [Investor Put]<br>[Issuer Call] |
| 11. | Date Board approval for issuance of Notes obtained: | | [[•]/Not Applicable] |
| 12. | Status of the Notes: | | [Senior]/[Subordinated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 13. | **Fixed Rate Note Provisions** | | [Applicable/Not Applicable] |
| | (i) | Rate(s) of Interest: | [•] per cent. per annum payable on each Interest Payment Date |
| | (ii) | Interest Payment Date(s): | [•] [and [•]] in each year up to and including the Maturity Date |
| | (iii) | Fixed Coupon Amount(s): | [•] per Calculation Amount |
| | (iv) | Broken Amount(s): | [[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable] |
| | (v) | Day Count Fraction (Condition 6(d)): | [Actual/Actual (ICMA)]<br>[Actual/365]<br>[Actual/360]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |

| | | | |
|---|---|---|---|
| | (vi) | Determination Date(s): | [[•] in each year]/[Not Applicable] |
| 14. | **Floating Rate Note Provisions** | | [Applicable/Not Applicable] |
| | (i) | Interest period(s): | [•] |
| | (ii) | Specified Period(s)/Specified Interest Payment Dates: | [[•] in each year, subject to adjustment in accordance with the Business Day Convention set out in (iii) below] |
| | (iii) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] |
| | (iv) | Additional Business Centre(s): | [[•]/[Not Applicable] |
| | (v) | Manner in which the Rate of Interest and Interest Amount is to be determined: | [Screen Rate Determination/ISDA Determination] |
| | (vi) | Party responsible for calculating the Rates of Interest and/or Interest Amount(s) (if not the Agent): | [•]/[Not Applicable] |
| | (vii) | Screen Rate Determination: | |
| | | • Reference Rate: | [LIBOR]/[EURIBOR] |
| | | • Interest Determination Date(s): | [•] |
| | | • Relevant Screen Page: | [•] |
| | | • Relevant Time: | [•] |
| | | • Relevant Financial Centre: | [•] |
| | (viii) | ISDA Determination: | |
| | | • Floating Rate Option: | [•] |
| | | • Designated Maturity: | [•] |
| | | • Reset Date: | [•] |
| | (ix) | Linear Interpolation: | [Not Applicable] / [Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)] |
| | (x) | Margin(s): | [+/-][•] per cent. per annum |
| | (xi) | Minimum Rate of Interest (Condition 7(e)): | [•] per cent. per annum |
| | (xii) | Maximum Rate of Interest (Condition 7(e)): | [•] per cent. per annum |
| | (xiii) | Day Count Fraction (Condition | [Actual/Actual (ICMA)] |

| | | |
|---|---|---|
| | 7(f)): | [Actual/365]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[Actual/360]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |
| 15. | **Zero Coupon Note Provisions** | [Applicable/Not Applicable] |
| (i) | Accrual Yield: | [•] per cent. per annum |
| (ii) | Reference Price: | [•] |
| (iii) | Day Count Fraction (Condition 9(h)): | [Actual/Actual (ICMA)]<br>[Actual/365]<br>[Actual/360]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 16. | **Call Option:** | [Applicable/Not Applicable] |
| (i) | Optional Redemption Date(s) (Call): | [•] |
| (ii) | Optional Redemption Amount: | [•] per Calculation Amount |
| (iii) | If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [•] per Calculation Amount |
| | (b) Maximum Redemption Amount: | [•] per Calculation Amount |
| 17. | **Put Option:** | [Applicable/Not Applicable] |
| (i) | Optional Redemption Date(s): | [•] |
| (ii) | Optional Redemption Amount: | [•] per Calculation Amount |
| 18. | **Early Redemption Amount:** | |
| | Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same: | [Not Applicable/Final Redemption Amount/[•] per Calculation Amount] |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 19. | Bearer Notes: | [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] |

| | | |
|---|---|---|
| | | [Temporary Global Note exchangeable for Definitive Notes on 30 day's notice]<br><br>[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] |
| 20. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/[•]] |
| 21. | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No] |
| 22. | Redenomination, renominalisation and reconverting provisions: | [Not Applicable/The provisions in Condition 20 (*Redenomination, Renominalisation and Reconverting*) apply] |
| 23. | RMB Settlement Centre(s): | [•]/[Not Applicable] |
| 24. | RMB Currency Event: | [Applicable]/[Not Applicable] |
| 25. | Relevant Currency for Condition 6(e): | [•]/[Not Applicable] |
| 26. | Relevant Spot Rate Screen Pages for Condition 6(e): | (i) Relevant Spot Rate Screen Page (Deliverable Basis): [•]/[Not Applicable]<br>(ii) Relevant Spot Rate Screen Page (Non-deliverable Basis): [•]/[Not Applicable] |
| 27. | Party responsible for calculating the Spot Rate for Condition 6(e): | [[•] (the "Calculation Agent")]/[Not Applicable] |

**DISTRIBUTION**

| | | |
|---|---|---|
| 28. | Method of distribution: | [Syndicated/Non-syndicated] |
| | (A) If syndicated, names of Managers: | [•]/[Not Applicable] |
| | (B) Stabilisation Manager(s) (if any): | [•]/[Not Applicable] |
| 29. | Prohibition of Sales to EEA Retail Investors: | [Applicable]/[Not Applicable] |
| 30. | If non-syndicated, name of relevant Dealer: | [•]/[Not Applicable] |

Signed on behalf of **Mashreqbank psc**

By: .....
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

| | | |
|---|---|---|
| (i) | Admission to listing: | [•]/[Application [has been made/is expected to be made] by Mashreqbank psc or on its behalf for the Notes to be admitted to listing on [the official list of the Luxembourg Stock Exchange]] |
| (ii) | Admission to trading: | [•]/[Application [has been made/is expected to be made] by Mashreqbank psc or on its behalf for the Notes to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange] with effect from [•] |
| (iii) | Estimate of total expenses related to the admission to trading: | [•] |

2. **RATINGS**

Ratings:

[S&P: [•]/[Not Applicable]]

[Moody's: [•]/[Not Applicable]]

[Fitch: [•]/[Not Applicable]]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

Save for any fees payable to the [Managers/Dealers], so far as Mashreqbank psc is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for Mashreqbank psc and its affiliates in the ordinary course of business for which they may receive fees.

4. **[FIXED RATE NOTES ONLY – YIELD**

Indication of yield: [•] per cent. per annum on a [quarterly/[semi-] annual basis]

5. **TEFRA RULES**

[TEFRA D/TEFRA C/TEFRA not applicable]

6. **OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (i) | CUSIP: | [•] |
| (ii) | ISIN Code: | [•] |
| (iii) | Common Code: | [•] |

Names and addresses of additional Paying Agent(s) (if any): [•]/[Not Applicable]

7. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. Mashreqbank psc confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

## ANNEX B: FORM OF PRICING SUPPLEMENT

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECP ONLY TARGET MARKET** - Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s]/[s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s]/[s'] target market assessment) and determining appropriate distribution channels.]

*Set out below is the form of Pricing Supplement for use in connection with each Tranche of Unlisted Notes issued by Mashreqbank under the Programme.*

Pricing Supplement dated [•]

**NO BASE PROSPECTUS IS REQUIRED TO BE PRODUCED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC (THE "PROSPECTUS DIRECTIVE"), AS AMENDED (INCLUDING BY DIRECTIVE 2010/73/EU AND ANY RELEVANT IMPLEMENTING MEASURE IN A RELEVANT MEMBER STATE) FOR THIS ISSUE OF NOTES. THE LUXEMBOURG *COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER* HAS NEITHER APPROVED NOR REVIEWED THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT.**

**MASHREQBANK PSC**

Issue of [•] [•]
under the U.S.$5,000,000,000
**EURO MEDIUM TERM NOTE PROGRAMME**

**PART A – CONTRACTUAL TERMS**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the base prospectus dated 23 January 2018 [and the supplement(s) to it dated [•]] (the "**Base Prospectus**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. The Base Prospectus is available for viewing at the Bank's head office at Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE and copies may be obtained from the Issuing and Principal Paying Agent, The Bank of New York Mellon, London Branch, One Canada Square, London, E14 5AL, England.

**PART A – CONTRACTUAL TERMS**

1. (i) Series Number: [•]

| | | | |
|---|---|---|---|
| | (ii) | Tranche Number: | [•]/[Not Applicable] |
| | (iii) | Date on which the Notes become fungible: | [•] |
| 2. | Specified Currency: | | [•] |
| 3. | Aggregate Principal Amount: | | |
| | (i) | Series: | [•] |
| | (ii) | Tranche: | [•]/[Not Applicable] |
| 4. | Issue Price: | | [•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]] |
| 5. | (i) | Specified Denominations: | [•] |
| | (ii) | Calculation Amount: | [•] |
| 6. | (i) | Issue Date: | [•] |
| | (ii) | Interest Commencement Date: | [[•]/Issue Date/Not Applicable] |
| 7. | Maturity Date: | | [•] |
| 8. | Interest Basis: | | [[•] per cent. Fixed Rate]<br>[[•] +/- [•] per cent. Floating Rate]<br>[Zero Coupon] |
| 9. | Change of Interest Basis: | | [For the period from and including the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) the Maturity Date, paragraph [13/14] applies/[Not applicable]] |
| 10. | Put/Call Options: | | [Investor Put]<br>[Issuer Call] |
| 11. | Date Board approval for issuance of Notes obtained: | | [[•]/Not Applicable] |
| 12. | Status of the Notes: | | [Senior]/[Subordinated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 13. | **Fixed Rate Note Provisions** | | [Applicable/Not Applicable] |
| | (i) | Rate(s) of Interest: | [•] per cent. per annum payable on each Interest Payment Date |
| | (ii) | Interest Payment Date(s): | [•] [and [•]] in each year up to and including the Maturity Date |
| | (iii) | Fixed Coupon Amount(s): | [•] per Calculation Amount |
| | (iv) | Broken Amount(s): | [[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable] |
| | (v) | Day Count Fraction (Condition | [Actual/Actual (ICMA)]<br>[Actual/365] |

| | | | |
|---|---|---|---|
| | | 6(d)): | [Actual/360]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |
| | (vi) | Determination Date(s): | [[•] in each year]/[Not Applicable] |
| 14. | **Floating Rate Note Provisions** | | [Applicable/Not Applicable] |
| | (i) | Interest period(s): | [•] |
| | (ii) | Specified Period(s)/Specified Interest Payment Dates: | [[•] in each year, subject to adjustment in accordance with the Business Day Convention set out in (iii) below] |
| | (iii) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] |
| | (iv) | Additional Business Centre(s): | [[•]/[Not Applicable] |
| | (v) | Manner in which the Rate of Interest and Interest Amount is to be determined: | [Screen Rate Determination/ISDA Determination] |
| | (vi) | Party responsible for calculating the Rates of Interest and/or Interest Amount(s) (if not the Agent): | [•]/[Not Applicable] |
| | (vii) | Screen Rate Determination: | |
| | | • Reference Rate: | [LIBOR]/[EURIBOR] |
| | | • Interest Determination Date(s): | [•] |
| | | • Relevant Screen Page: | [•] |
| | | • Relevant Time: | [•] |
| | | • Relevant Financial Centre: | [•] |
| | (viii) | ISDA Determination: | |
| | | • Floating Rate Option: | [•] |
| | | • Designated Maturity: | [•] |
| | | • Reset Date: | [•] |
| | (ix) | Margin(s): | [+/-][•] per cent. per annum |
| | (x) | Linear interpolation: | Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify* |

| | | | |
|---|---|---|---|
| | | | *for each short or long interest period*) |
| | (xi) | Minimum Rate of Interest (Condition 7(e)): | [•] per cent. per annum |
| | (xii) | Maximum Rate of Interest (Condition 7(e)): | [•] per cent. per annum |
| | (xiii) | Day Count Fraction (Condition 7(f)): | [Actual/Actual (ICMA)]<br>[Actual/365]<br>[Actual/360]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |
| 15. | **Zero Coupon Note Provisions** | | [Applicable/Not Applicable] |
| | (i) | Accrual Yield: | [•] per cent. per annum |
| | (ii) | Reference Price: | [•] |
| | (iii) | Day Count Fraction (Condition 9(h)): | [Actual/Actual (ICMA)]<br>[Actual/365]<br>[Actual/360]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[30/360]<br>[30E/360]<br>[Eurobond basis]<br>[30E/360 (ISDA)] |

**PROVISIONS RELATING TO REDEMPTION**

| | | | |
|---|---|---|---|
| 16. | **Call Option:** | | [Applicable/Not Applicable] |
| | (i) | Optional Redemption Date(s) (Call): | [•] |
| | (ii) | Optional Redemption Amount: | [•] per Calculation Amount |
| | (iii) | If redeemable in part: | |
| | | (a) Minimum Redemption Amount: | [•] per Calculation Amount |
| | | (b) Maximum Redemption Amount: | [•] per Calculation Amount |
| 17. | **Put Option:** | | [Applicable/Not Applicable] |
| | (i) | Optional Redemption Date(s): | [•] |
| | (ii) | Optional Redemption Amount: | [•] per Calculation Amount |
| 18. | **Early Redemption Amount:** | | |
| | Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the | | [Not Applicable/Final Redemption Amount/[•] per Calculation Amount] |

method of calculating the same:

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 19. | Bearer Notes: | [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]<br><br>[Temporary Global Note exchangeable for Definitive Notes on 30 day's notice]<br><br>[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] |
| 20. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/[•]] |
| 21. | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No] |
| 22. | Redenomination, renominalisation and reconverting provisions: | [Not Applicable/The provisions in Condition 20 (*Redenomination, Renominalisation and Reconverting*) apply] |
| 23. | RMB Settlement Centre(s): | [•]/[Not Applicable] |
| 24. | RMB Currency Event: | [Applicable]/[Not Applicable] |
| 25. | Relevant Currency for Condition 6(e): | [•]/[Not Applicable] |
| 26. | Relevant Spot Rate Screen Pages for Condition 6(e): | (i) Relevant Spot Rate Screen Page (Deliverable Basis): [•]/[Not Applicable]<br>(ii) Relevant Spot Rate Screen Page (Non-deliverable Basis): [•]/[Not Applicable] |
| 27. | Party responsible for calculating the Spot Rate for Condition 6(e): | [[•] (the "Calculation Agent")]/[Not Applicable] |

**DISTRIBUTION**

| | | |
|---|---|---|
| 28. | Method of distribution: | [Syndicated/Non-syndicated] |
| | (A) If syndicated, names of Managers: | [•]/[Not Applicable] |
| | (B) Stabilisation Manager(s) (if any): | [•]/[Not Applicable] |
| 29. | Prohibition of Sales to EEA Retail Investors: | [Applicable]/[Not Applicable] |
| 30. | If non-syndicated, name of relevant Dealer: | [•]/[Not Applicable] |

Signed on behalf of **Mashreqbank psc**

By: .....
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

| | | |
|---|---|---|
| (i) | Admission to listing: | [•]/[Not Applicable] |
| (ii) | Admission to trading: | [•]/[Not Applicable] |
| (iii) | Estimate of total expenses related to the admission to trading: | [•] |

2. **RATINGS**

Ratings:

[S&P: [•]/[Not Applicable]]

[Moody's: [•]/[Not Applicable]]

[Fitch: [•]/[Not Applicable]]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

Save for any fees payable to the [Managers/Dealers], so far as Mashreqbank psc is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for Mashreqbank psc and its affiliates in the ordinary course of business for which they may receive fees.

4. **[FIXED RATE NOTES ONLY – YIELD**

Indication of yield: [•] per cent. per annum on a [quarterly/[semi-] annual basis]

5. **TEFRA RULES**

[TEFRA D/TEFRA C/TEFRA not applicable]

6. **OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (i) | CUSIP: | [•] |
| (ii) | ISIN Code: | [•] |
| (iii) | Common Code: | [•] |

Names and addresses of additional Paying Agent(s) (if any): [•]/[Not Applicable]

7. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. Mashreqbank psc confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

## ANNEX C: INDEX TO FINANCIAL STATEMENTS


**Interim Consolidated Financial Information and Review Report for the period from 1 January 2017 to 30 September 2017** ..... F-1

Report on Review of Interim Consolidated Financial Information ..... F-3

Condensed Consolidated Statement of Financial Position ..... F-4

Condensed Consolidated Statement of Income (Un-audited) ..... F-5

Condensed Consolidated Statement of Comprehensive Income (Un-audited) ..... F-6

Condensed Consolidated Statement of Changes in Equity (Un-audited) ..... F-7

Condensed Consolidated Statement of Cash Flows (Un-audited) ..... F-8

Notes to Condensed Consolidated Financial Statements F-9

**Audited Consolidated Financial Statements of Mashreqbank psc for the year ended 31 December 2016** ..... F-45

Independent Auditor's Report ..... F-47

Consolidated Statement of Financial Position ..... F-56

Consolidated Income Statement ..... F-57

Consolidated Statement of Comprehensive Income ..... F-58

Consolidated Statement of Changes in Equity ..... F-59

Consolidated Statement of Cash Flows ..... F-60

Notes to the Consolidated Financial Statements ..... F-62

**Audited Consolidated Financial Statements of Mashreqbank psc for the year ended 31 December 2015** ..... F-165

Independent Auditor's Report ..... F-168

Consolidated Statement of Financial Position ..... F-170

Consolidated Income Statement ..... F-171

Consolidated Statement of Comprehensive Income ..... F-172

Consolidated Statement of Changes in Equity ..... F-173

Consolidated Cash Flow Statement ..... F-174

Notes to the Consolidated Financial Statements ..... F-176

**MASHREQBANK PSC GROUP**

**Review report and interim financial information for the period from 1 January 2017 to 30 September 2017**

**MASHREQBANK PSC GROUP**

**Review report and interim financial information**
**for the period from 1 January 2017 to 30 September 2017**

**Contents** **Pages**


| | |
|---|---|
| **Report on review of interim financial information** | **1** |
| **Condensed consolidated statement of financial position** | **2** |
| **Condensed consolidated income statement (un-audited)** | **3** |
| **Condensed consolidated statement of comprehensive income (un-audited)** | **4** |
| **Condensed consolidated statement of changes in equity** | **5** |
| **Condensed consolidated statement of cash flows (un-audited)** | **6** |
| **Notes to the condensed consolidated financial statements** | **7 - 42** |

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# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**The Board of Directors**
**Mashreqbank psc**
**Dubai**
**United Arab Emirates**

We have reviewed the accompanying condensed consolidated statement of financial position of **Mashreqbank psc and its Subsidiaries** (the "Group") as at 30 September 2017 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flows for the nine-month period then ended. Management of the Group is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 - *'Interim Financial Reporting'* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'*. A review of 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 interim financial information is not prepared, in all material respects in accordance with IAS 34.

**Deloitte & Touche (M.E.)**

**Musa Ramahi**
**Partner**
**Registration No. 872**
**16 October 2017**

Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practising auditors with the UAE Ministry of Economy.

## Condensed consolidated statement of financial position as at 30 September 2017

| | Notes | 30 September 2017 (un-audited) AED '000 | 31 December 2016 (audited) AED '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | | **13,623,213** | 18,629,582 |
| Deposits and balances due from banks | | **18,922,564** | 18,667,750 |
| Other financial assets measured at fair value | 5 | **1,722,276** | 2,419,199 |
| Loans and advances measured at amortised cost | 6 | **55,541,093** | 53,428,461 |
| Islamic financing and investment products measured at amortised cost | 7 | **9,103,908** | 7,565,063 |
| Other financial assets measured at amortised cost | 5 | **12,361,342** | 10,849,298 |
| Other assets | | **8,637,841** | 9,552,316 |
| Goodwill | | **15,154** | 15,365 |
| Investment properties | 8 | **520,864** | 520,864 |
| Property and equipment | 9 | **1,304,943** | 1,165,638 |
| **Total assets** | | **121,753,198** | 122,813,536 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits and balances due to banks | 10 | **7,126,204** | 9,537,676 |
| Customers' deposits | 11 | **69,152,127** | 69,947,124 |
| Islamic customers' deposits | 12 | **6,946,932** | 7,093,383 |
| Insurance and life assurance funds | | **1,592,952** | 1,510,758 |
| Other liabilities | | **9,818,378** | 10,267,090 |
| Medium-term loans | 13 | **6,488,306** | 4,971,860 |
| **Total liabilities** | | **101,124,899** | 103,327,891 |
| **Equity** | | | |
| Issued and paid up capital | 14 | **1,775,308** | 1,775,308 |
| Statutory and legal reserves | | **901,621** | 899,351 |
| General reserve | | **312,000** | 312,000 |
| Cumulative translation adjustment | | **(104,986)** | (298,562) |
| Investments revaluation reserve | | **(207,949)** | (248,283) |
| Cash flow hedging reserve | | **-** | 7,624 |
| Retained earnings | | **17,217,416** | 16,310,198 |
| **Equity attributable to owners of the Parent** | | **19,893,410** | 18,757,636 |
| Non-controlling interests | 15 | **734,889** | 728,009 |
| **Total equity** | | **20,628,299** | 19,485,645 |
| **Total liabilities and equity** | | **121,753,198** | 122,813,536 |

**Abdulla Bin Ahmed Al Ghurair**
**Chairman**

**Abdul Aziz Abdulla Al Ghurair**
**Chief Executive Officer**

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

## Condensed consolidated income statement (un-audited) for the period from 1 January 2017 to 30 September 2017

| | Notes | 3 months ended 30 September | | 9 months ended 30 September | |
|---|---|---|---|---|---|
| | | **2017** | 2016 | **2017** | 2016 |
| | | **(un-audited) AED '000** | (un-audited) AED '000 | **(un-audited) AED '000** | (un-audited) AED '000 |
| Interest income | | **1,194,106** | 1,167,029 | **3,484,630** | 3,311,732 |
| Income from Islamic financing and investment products | | **104,206** | 89,242 | **298,678** | 256,925 |
| Total interest income and income from Islamic financing and investment products | | **1,298,312** | 1,256,271 | **3,783,308** | 3,568,657 |
| Interest expense | | **(364,989)** | (369,142) | **(1,062,317)** | (980,307) |
| Distribution to depositors – Islamic products | | **(39,270)** | (26,778) | **(112,516)** | (76,218) |
| **Net interest income and net income from Islamic products** | | **894,053** | 860,351 | **2,608,475** | 2,512,132 |
| Fee and commission income | | **750,412** | 712,594 | **2,227,922** | 2,286,532 |
| Fee and commission expense | | **(336,468)** | (313,801) | **(1,051,465)** | (993,724) |
| **Net fee and commission income** | | **413,944** | 398,793 | **1,176,457** | 1,292,808 |
| Net investment income | | **44,945** | 26,375 | **165,963** | 223,162 |
| Other income, net | | **87,823** | 210,983 | **484,273** | 636,499 |
| **Operating income** | | **1,440,765** | 1,496,502 | **4,435,168** | 4,664,601 |
| General and administrative expenses | 16 | **(581,016)** | (582,545) | **(1,756,233)** | (1,786,695) |
| Allowances for impairment, net | | **(264,761)** | (470,092) | **(916,240)** | (1,308,176) |
| **Profit before taxes** | | **594,988** | 443,865 | **1,762,695** | 1,569,730 |
| Overseas income tax expense | | **(24,261)** | (24,286) | **(70,008)** | (57,583) |
| **Profit for the period** | | **570,727** | 419,579 | **1,692,687** | 1,512,147 |
| **Attributed to:** | | | | | |
| Owners of the Parent | | **560,837** | 414,952 | **1,664,470** | 1,486,181 |
| Non-controlling interests | | **9,890** | 4,627 | **28,217** | 25,966 |
| | | **570,727** | 419,579 | **1,692,687** | 1,512,147 |
| **Earnings per share (AED)** | 17 | **3.16** | 2.34 | **9.38** | 8.37 |

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

## Condensed consolidated statement of comprehensive income (un-audited) for the period from 1 January 2017 to 30 September 2017

| | 3 months ended 30 September | | 9 months ended 30 September | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **(un-audited) AED '000** | (un-audited) AED '000 | **(un-audited) AED '000** | (un-audited) AED '000 |
| **Profit for the period** | **570,727** | 419,579 | **1,692,687** | 1,512,147 |
| **Other comprehensive income/(loss)** | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | |
| Changes in fair value of financial assets measured at FVTOCI, net | **23,552** | (31,605) | **(9,185)** | (26,904) |
| *Items that may be reclassified subsequently to profit or loss:* | | | | |
| Cumulative translation adjustment | **212,327** | 3,168 | **193,576** | (26,742) |
| Cash flow hedges - Fair value loss arising during the period | **-** | (877) | **(7,624)** | (4,404) |
| **Total other comprehensive income/(loss) for the period** | **235,879** | (29,314) | **176,767** | (58,050) |
| **Total comprehensive income for the period** | **806,606** | 390,265 | **1,869,454** | 1,454,097 |
| **Attributed to:** | | | | |
| Owners of the Parent | **795,476** | 393,920 | **1,845,897** | 1,439,700 |
| Non-controlling interests | **11,130** | (3,655) | **23,557** | 14,397 |
| | **806,606** | 390,265 | **1,869,454** | 1,454,097 |

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

## MASHREQBANK PSC GROUP

## Condensed consolidated statement of changes in equity for the period from 1 January 2017 to 30 September 2017

| | Issued and paid up capital AED'000 | Statutory and legal reserves AED'000 | General reserve AED'000 | Cumulative translation adjustment AED'000 | Investments revaluation reserve AED'000 | Cash flow hedging reserve AED'000 | |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 (audited) | 1,775,308 | 896,595 | 312,000 | (60,610) | (276,416) | 9,221 | 15 |
| Profit for the period | - | - | - | - | - | - | 1 |
| Other comprehensive loss | - | - | - | (26,742) | (15,335) | (4,404) | |
| Total comprehensive income/(loss) for the period | - | - | - | (26,742) | (15,335) | (4,404) | 1 |
| Transfer to statutory and legal reserves | - | 2,756 | - | - | - | - | |
| Payment of dividends (Note 14) | - | - | - | - | - | - | |
| Transfer from investments revaluation reserve to retained earnings | - | - | - | - | 7,901 | - | |
| Balance at 30 September 2016 (un-audited) | 1,775,308 | 899,351 | 312,000 | (87,352) | (283,850) | 4,817 | 15 |
| **Balance at 1 January 2017 (audited)** | **1,775,308** | **899,351** | **312,000** | **(298,562)** | **(248,283)** | **7,624** | **16** |
| **Profit for the period** | - | - | - | - | - | - | **1** |
| **Other comprehensive income/(loss)** | - | - | - | **193,576** | **(4,525)** | **(7,624)** | |
| **Total comprehensive income/(loss) for the period** | - | - | - | **193,576** | **(4,525)** | **(7,624)** | **1** |
| **Transfer to statutory and legal reserves** | - | **2,270** | - | - | - | - | |
| **Payment of dividends (Note 14)** | - | - | - | - | - | - | |
| **Transfer from investments revaluation reserve to retained earnings** | - | - | - | - | **44,859** | - | |
| **Balance at 30 September 2017 (un-audited)** | **1,775,308** | **901,621** | **312,000** | **(104,986)** | **(207,949)** | - | **17** |

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

## Condensed consolidated statement of cash flows (un-audited) for the period from 1 January 2017 to 30 September 2017

| | 9 months ended 30 September 2017 (un-audited) AED '000 | 9 months ended 30 September 2016 (un-audited) AED '000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation for the period | **1,762,695** | 1,569,730 |
| Adjustments for: | | |
| Depreciation of property and equipment | **111,958** | 115,236 |
| Allowance for impairment, net | **916,240** | 1,308,175 |
| Loss on disposal of property and equipment | **279** | 2,867 |
| Fair value adjustment of other financial assets measured at FVTPL | **(22,447)** | (10,934) |
| Fair value adjustment of derivatives | **3,987** | (716) |
| Dividend income from financial assets measured at FVTOCI | **(20,769)** | (24,705) |
| Fair value adjustment of investment properties | **-** | (746) |
| **Changes in operating assets and liabilities** | | |
| Decrease/(increase) in deposits with central banks for regulatory purposes and certificate of deposits with the central banks | **1,381,262** | (1,067,465) |
| Decrease/(increase) in deposits and balances due from banks maturing after three months | **2,927,552** | (2,669,683) |
| Decrease in other financial assets measured at FVTPL | **549,887** | 793,174 |
| Increase in loans and advances measured at amortised cost | **(2,979,465)** | (1,956,246) |
| Increase in Islamic financing and investment products measured at amortised cost | **(1,569,602)** | (1,454,098) |
| Decrease/(increase) in other assets | **888,045** | (2,464,584) |
| Decrease in deposits and balances due to banks | **(2,411,472)** | (1,153,605) |
| (Decrease)/increase in customers' deposits | **(794,997)** | 4,011,255 |
| Decrease in Islamic customers' deposits | **(146,451)** | (2,370,597) |
| Increase in insurance and life assurance funds | **82,194** | 17,232 |
| (Decrease)/increase in other liabilities | **(448,712)** | 2,709,664 |
| Increase in medium-term loans – net | **1,516,446** | 388,008 |
| Increase in repurchase agreements with banks | **-** | 138,006 |
| Overseas income tax | **(70,008)** | (57,583) |
| **Net cash generated from/(used in) operating activities** | **1,676,622** | (2,177,615) |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | **(252,825)** | (99,138) |
| Proceeds from sale of property and equipment | **1,283** | 599 |
| Net increase in non-trading investments | **(1,351,746)** | (3,108,308) |
| Proceeds from disposal of investment properties | **-** | 4,500 |
| Dividend income received from other financial assets measured at FVTOCI | **20,769** | 24,705 |
| **Net cash used in investing activities** | **(1,582,519)** | (3,177,642) |
| **Cash flows from financing activities** | | |
| Dividend paid | **(726,800)** | (726,778) |
| **Net cash used in financing activities** | **(726,800)** | (726,778) |
| **Net decrease in cash and cash equivalents** | **(632,697)** | (6,082,035) |
| Net foreign exchange difference | **193,576** | (26,742) |
| Cash and cash equivalents at beginning of the period (Note 18) | **20,313,437** | 19,877,731 |
| **Cash and cash equivalents at end of the period (Note 18)** | **19,874,316** | 13,768,954 |

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

**Notes to the condensed consolidated financial statements for the period from 1 January 2017 to 30 September 2017**

## 1. General information

Mashreqbank psc (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank 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 September 2017, Mashreqbank psc Group (the "Group") comprises of the Bank and the following direct subsidiaries:

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

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

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

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

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

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Assocates and Joint Ventures (2015).* | 1 January 2018 |
| • Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions. | 1 January 2018 |
| • Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard. | 1 January 2018 |
| • Finalised version of IFRS 9 [IFRS 9 *Financial Instruments* (2014)] was issued in July 2014 incorporating requirements for impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.<br>➢ **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. | 1 January 2018 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

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

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

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • Finalised version of IFRS 9 [IFRS 9 *Financial Instruments* (2014)] (continued)<br>➢ **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.<br>➢ **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.<br>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.<br>A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract. | 1 January 2018 |
| • IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<br>The interpretation addresses foreign currency transactions or parts of transactions where:<br>➢ there is consideration that is denominated or priced in a foreign currency;<br>➢ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and<br>➢ the prepayment asset or deferred income liability is non-monetary. | 1 January 2018 |
| • IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. | 1 January 2018 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

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

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

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | 1 January 2018 |
| • IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. | 1 January 2019 |
| • IFRIC 23 *Uncertainty over income Tax Treatments* addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, tax rates and uncertainty over income tax treatments under IAS 12. | 1 January 2019 |
| • IFRS 17 *Insurance Contracts* requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021. | 1 January 2021 |
| • Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture. | Effective date deferred indefinitely |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's condensed consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's condensed consolidated financial statements in respect of Group's financial assets and financial liabilities, once the standard is adopted in 2018. The Group has a centrally managed IFRS 9 program focusing on methodology, data sourcing and modelling, IT processing and reporting. The Group's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance. The Group will be able to communicate a reasonable estimate of the quantitative effects of the application of IFRS 9 upon completion of these detailed reviews.

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

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

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

Overall governance of the program's implementation is overseen by the IFRS 9 Steering Committee and includes representation from senior stakeholders, management and external consultants. Guidance and training on IFRS 9 across the Group is delivered across businesses and functions as part of the Group's internal control systems. The Group is in the process of enhancing its existing governance framework to ensure that appropriate validations and controls are in place over new key processes and significant areas of judgment.

## 3. Summary of significant accounting policies

### 3.1 Basis of preparation

The condensed consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed consolidated financial statements are 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 these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2016.

These condensed consolidated financial statements do not include all the information and disclosure 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 2016. In addition, results for the period from 1 January 2017 to 30 September 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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 statements.

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015 (as amended). The Bank had twenty four months from the effective date of the Companies Law to comply with its provisions (the "transitional provisions"). As of the date of approving the consolidated condensed financial statements, the Bank has not yet fully amended its Articles of Association to comply with the requirement for the new Companies Law, as it is still in discussion with the regulators and its major shareholders on certain modifications to the Banks's Articles of Association.

### 3.2 Basis of consolidation

These condensed consolidated financial statements incorporate the financial statements 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 financial statements comprise the financial statements of the Bank and of the subsidiaries as disclosed in Note 1 to these condensed consolidated financial statements. The financial statements 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.

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

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

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

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

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

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

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

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

## 3. Summary of significant accounting policies (continued)

### 3.3 Financial assets (continued)

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

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

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

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

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

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrecovable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the condensed consolidated income statement. The net gain or loss recognised in the condensed consolidated income statement is included in the 'net investment income' line item in the condensed consolidated income statement. Fair value is determined in the manner described in Note 24 to the consolidated financial statements.

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

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

## 3. Summary of significant accounting policies (continued)

### 3.3 Financial assets (continued)

Foreign exchange gains and losses

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

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

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the condensed consolidated income statement.

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

## 3. Summary of significant accounting policies (continued)

### 3.3 Financial assets (continued)

Impairment of financial assets (continued)

***(i) Individually assessed loans***

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

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

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

***(ii) Collectively assessed loans***

Impairment losses of collectively assessed loans include the allowances on:

***(a) Performing commercial and other loans***

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

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

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

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

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

Derecognition of financial assets

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

## 3. Summary of significant accounting policies (continued)

### 3.3 Financial assets (continued)

Impairment of financial assets (continued)

***(ii) Collectively assessed loans** (continued)*

Derecognition of financial assets (continued)

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

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

### 3.4 Islamic financing and investment products

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

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

*(i) Definitions*

The following terms are used in Islamic financing:

***Murabaha***

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

***Ijarah***

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

***Musharaka***

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

***Mudaraba***

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

## 3. Summary of significant accounting policies (continued)

### 3.4 Islamic financing and investment products (continued)

***Wakala***

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

*(ii) Accounting policy*

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

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

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements. Islamic financing and investing 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 condensed consolidated income statement using the effective profit method.

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

***Murabaha***

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

***Ijarah***

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

***Musharaka***

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

***Mudaraba***

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

***Wakala***

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

## 3. Summary of significant accounting policies (continued)

### 3.4 Islamic financing and investment products (continued)

*(iv) Islamic customers' deposits and distributions to depositors*

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

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

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

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

### 3.6 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 2016.

## 4. Critical accounting judgements and key sources of estimation of uncertainty

The preparation of condensed consolidated financial statements 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 these condensed consolidated financial statements, 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 2016.

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 5. Other financial assets

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

| | 30 September 2017 (un-audited) AED'000 | 31 December 2016 (audited) AED'000 |
|---|---|---|
| **Other financial assets measured at fair value** | | |
| (i) **Financial assets measured at fair value through profit or loss (FVTPL)** | | |
| Debt securities | **574,719** | 1,113,396 |
| Equities | **3,847** | 215 |
| Mutual and other funds | **544,514** | 536,909 |
| | **1,123,080** | 1,650,520 |
| (ii) **Financial assets measured at fair value through other comprehensive income (FVTOCI)** | | |
| Equities | **588,500** | 732,508 |
| Mutual and other funds | **10,696** | 36,171 |
| | **599,196** | 768,679 |
| **Total other financial assets measured at fair value** | **1,722,276** | 2,419,199 |
| (iii) **Financial assets measured at amortised cost** | | |
| Debt securities | **12,361,342** | 10,849,298 |
| **Total other financial assets** | **14,083,618** | 13,268,497 |

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

| | 30 September 2017 (un-audited) AED'000 | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Balances within the U.A.E. | **2,998,641** | 3,494,333 |
| Balances outside the U.A.E. | **11,084,977** | 9,774,164 |
| | **14,083,618** | 13,268,497 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**5. Other financial assets** (continued)

(c) During the period from 1 January 2017 to 30 September 2017, dividends received from financial assets measured at FVTOCI amounting to AED 21 million (period ended 30 September 2016: AED 25 million) were recognised as net investment income in the condensed consolidated income statement.

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

(e) Other financial assets measured at FVTPL include AED 232 million (31 December 2016: AED 225 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Al Islami Income Fund and Mashreq Al Islami Arab Tigers 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.

(f) At 31 December 2016, certain financial assets measured at amortised costs included debt securities aggregating to notional value of AED 623 million (fair value of AED 634 million) which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 606 million [Note 10 (a)]. During the period ended 30 September 2017, such Repo agreements have been settled.

(g) During the period ended 30 September 2017, Nil (31 December 2016: AED 1.4 billion) investments measured at FVTPL were reclassified to other financial assets measured at amortised cost.

**6. 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 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Loans | **51,996,987** | 48,720,940 |
| Overdrafts | **4,228,827** | 4,684,243 |
| Credit cards | **2,529,931** | 2,784,011 |
| Other | **524,075** | 459,800 |
| | **59,279,820** | 56,648,994 |
| Less: Allowance for impairment | **(3,738,727)** | (3,220,533) |
| | **55,541,093** | 53,428,461 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**6. 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 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Manufacturing | **4,209,250** | 3,864,320 |
| Construction | **6,494,220** | 5,503,953 |
| Trade | **8,433,633** | 9,010,501 |
| Transport and communication | **3,603,293** | 3,844,615 |
| Services | **7,716,600** | 5,698,416 |
| Financial institutions | **1,514,775** | 1,824,699 |
| Personal | **16,425,919** | 16,581,261 |
| Government and related enterprises | **10,882,130** | 10,304,888 |
| Other | **-** | 16,341 |
| | **59,279,820** | 56,648,994 |
| Less: Allowance for impairment | **(3,738,727)** | (3,220,533) |
| | **55,541,093** | 53,428,461 |

(c) The movements in the allowance for impairment and interest in suspense of loans and advances measured at amortised cost during the period and prior year were as follows:

| | **9 months ended 30 September 2017 (un-audited) AED '000** | Year ended 31 December 2016 (audited) AED '000 |
|---|---|---|
| Balance at the beginning of the period/year | **3,220,533** | 2,766,169 |
| Impairment allowance for the period/year | **432,457** | 903,225 |
| Interest in suspense | **134,221** | 117,174 |
| Exchange rate and other adjustments | **16,045** | (46,986) |
| Recoveries during the period/year | **(3,200)** | (3,900) |
| Written off during the period/year | **(61,329)** | (515,149) |
| Balance at the end of the period/year | **3,738,727** | 3,220,533 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 7. 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 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| **Financing** | | |
| Murabaha | **5,487,732** | 3,694,743 |
| Ijarah | **3,809,380** | 3,122,514 |
| | **9,297,112** | 6,817,257 |
| **Investment** | | |
| Mudaraba | **22,776** | 232,355 |
| Wakala | **30,902** | 728,496 |
| | **53,678** | 960,851 |
| **Total** | **9,350,790** | 7,778,108 |
| Less: Unearned income | **(187,352)** | (157,800) |
| Allowance for impairment | **(59,530)** | (55,245) |
| | **9,103,908** | 7,565,063 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**7. 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:

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Manufacturing | **665,134** | 605,964 |
| Construction | **2,056,379** | 1,988,459 |
| Trade | **846,114** | 799,626 |
| Transport and communication | **242,804** | 323,846 |
| Services | **2,578,116** | 1,835,386 |
| Financial institutions | **462,686** | 278,256 |
| Personal | **2,035,280** | 1,783,541 |
| Government and related enterprises | **464,277** | 163,030 |
| **Total** | **9,350,790** | 7,778,108 |
| Less: Unearned income | **(187,352)** | (157,800) |
| Allowance for impairment | **(59,530)** | (55,245) |
| | **9,103,908** | 7,565,063 |

(c) The movement in the allowance for impairment of Islamic financing and investment products measured at amortised cost during the current period and prior year were as follows:

| | **9 months ended 30 September 2017 (un-audited) AED '000** | Year ended 31 December 2016 (audited) AED '000 |
|---|---|---|
| Balance at the beginning of the period/year | **55,245** | 48,631 |
| Impairment allowance for the period/year | **2,382** | 19,775 |
| Profit suspensed/(reversal of profit in suspense) | **1,903** | (145) |
| Written off during the period/year | **-** | (13,016) |
| Balance at the end of the period/year | **59,530** | 55,245 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 8. Investment properties

| | **9 months ended 30 September 2017 (un-audited) AED '000** | Year ended 31 December 2016 (audited) AED '000 |
|---|---|---|
| ***At fair value*** | | |
| Balance at beginning of the period/year | **520,864** | 527,525 |
| Disposals | - | (2,161) |
| Change in fair value during the period/year | - | (4,500) |
| Balance at the end of the period/year | **520,864** | 520,864 |

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 2016 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. As at 30 September 2017, there has been no change in the economic environment and the fair value of these investment properties.

There has been no change to the valuation methods used during the period/year.

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

## 9. Property and equipment

During the period, the Group purchased approximately AED 253 million (period ended 30 September 2016: AED 99 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 1.6 million (period ended 30 September 2016: AED 3.5 million).

## 10. Deposits and balances due to banks

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

| | **30 September 2017 (un-audited) AED '000** | 31 December 2016 (audited) AED '000 |
|---|---|---|
| Time (a) | **3,898,969** | 6,348,817 |
| Demand | **1,678,789** | 1,538,551 |
| Overnight | **1,548,446** | 1,650,308 |
| | **7,126,204** | 9,537,676 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 10. Deposits and balances due to banks (continued)

(a) Included in Time Deposits as at 31 December 2016, was an amount of AED 606 million representing liability under repurchase agreements with banks ("Repo"). During the period, the Group settled this Repo which were collateralised by debt securities measured at amortised cost aggregating to a notional value of AED 623 million (fair value of AED 634 million) [Note 5 (f)].

## 11. Customers' deposits

The analysis of customers' deposits is as follows:

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Current and other accounts | **41,275,571** | 41,053,475 |
| Saving accounts | **3,374,868** | 3,406,698 |
| Time deposits | **24,501,688** | 25,486,951 |
| | **69,152,127** | 69,947,124 |

## 12. Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Current and other accounts | **3,354,221** | 3,784,930 |
| Saving accounts | **140,611** | 124,373 |
| Time deposits | **3,452,100** | 3,184,080 |
| | **6,946,932** | 7,093,383 |

## 13. Medium-term loans

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Medium term notes (a) | **6,488,306** | 3,135,360 |
| Syndicated loan (b) | **-** | 1,836,500 |
| | **6,488,306** | 4,971,860 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**13. Medium-term loans** (continued)

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

| Year | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| 2017 | **1,194,251** | 2,875,365 |
| 2018 | **4,702,789** | 190,885 |
| 2019 | **69,700** | 69,110 |
| 2020 | **257,110** | - |
| 2021 | **183,650** | - |
| 2022 | **80,806** | - |
| | **6,488,306** | 3,135,360 |

Medium term notes are denominated in following currencies:

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| U.S. Dollars | **5,231,454** | 2,329,784 |
| Swiss Francs | **191,559** | 111,412 |
| Kuwaiti Dinar | **-** | 121,075 |
| Euro | **227,957** | 139,403 |
| Japanese Yen | **639,618** | 297,896 |
| Chinese Yuan | **139,528** | 135,790 |
| Australian Dollars | **58,190** | - |
| | **6,488,306** | 3,135,360 |

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

During the period ended 30 September 2017, new medium-term notes of AED 5.6 billion were issued and AED 2.3 billion of medium-term notes were redeemed.

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

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 13. Medium-term loans (continued)

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

## 14. Issued and paid up capital

As at 30 September 2017, 177,530,823 ordinary shares of AED 10 each (31 December 2016: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

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

## 15. Non-controlling interests

| | **9 months ended 30 September 2017 (un-audited) AED'000** | Year ended 31 December 2016 (audited) AED'000 |
|---|---|---|
| Balance at the beginning of the period/year | **728,009** | 717,118 |
| Profit for the period/year | **28,217** | 27,499 |
| Other comprehensive (loss)/income for the period/year | **(4,660)** | 47 |
| Dividends paid | **(16,677)** | (16,655) |
| Balance at the end of the period/year | **734,889** | 728,009 |

## 16. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 103 million for the period from 30 September 2017 (period ended 30 September 2016: AED 99 million).

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

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

| | **9 months ended 30 September 2017 (un-audited)** | 9 months ended 30 September 2016 (un-audited) |
|---|---|---|
| Profit for the period (AED'000) (Attributed to owners of the Parent) | **1,664,470** | 1,486,181 |
| Weighted average number of shares in issue | **177,530,823** | 177,530,823 |
| Basic earnings per share (AED) | **9.38** | 8.37 |

There were no potentially dilutive shares as of 30 September 2017 and 30 September 2016.

## 18. Cash and cash equivalents

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

| | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 | 30 September 2016 (un-audited) AED'000 |
|---|---|---|---|
| Cash on hand | **911,728** | 1,049,505 | 997,725 |
| Current accounts and other balances with central banks | **3,287,465** | 6,774,795 | 3,295,121 |
| Certificates of deposit maturing within 3 months | **-** | - | 1,000,000 |
| Deposits and balances due from banks maturing within 3 months | **15,675,123** | 12,489,137 | 8,476,108 |
| | **19,874,316** | 20,313,437 | 13,768,954 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 19. Contra accounts

The analysis of the Group's contra accounts is as follows:

| | 30 September 2017 (un-audited) AED'000 | 31 December 2016 (audited) AED'000 |
|---|---|---|
| ***Contra accounts (memoranda)*** | | |
| Guarantees | **40,307,101** | 38,285,010 |
| Letters of credit | **5,400,377** | 4,743,855 |
| | **45,707,478** | 43,028,865 |

## 20. Derivative financial instruments

**30 September 2017 (un-audited)**

| | Positive fair value AED'000 | Negative fair value AED'000 | Notional Amount AED'000 |
|---|---|---|---|
| **Held for Trading:** | | | |
| Forward foreign exchange contract | **205,668** | **137,265** | **55,291,168** |
| Foreign exchange options (bought) | **-** | **8,582** | **3,692,670** |
| Foreign exchange options (sold) | **8,651** | **-** | **3,396,183** |
| Interest rate swaps | **343,778** | **337,742** | **25,843,587** |
| Credit Detault Swaps | **-** | **783** | **36,730** |
| Futures contracts purchased (Customer) | **-** | **107** | **51,107** |
| Futures contracts sold (Customer) | **-** | **838** | **467,626** |
| Futures contracts sold (Bank) | **107** | **-** | **51,107** |
| Futures contracts purchased (Bank) | **838** | **-** | **467,626** |
| | **559,042** | **485,317** | **89,297,804** |

**30 September 2017 (un-audited)**

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| ***Other assets*** | | | | |
| **Positive fair value of derivatives** | **-** | **559,042** | **-** | **559,042** |
| ***Other liabilities*** | | | | |
| **Negative fair value of derivatives** | **-** | **485,317** | **-** | **485,317** |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 20. Derivative financial instruments (continued)

31 December 2016 (audited)

| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 |
|---|---|---|---|
| Held for trading: | | | |
| Forward foreign exchange contract | 379,705 | 452,175 | 46,706,024 |
| Foreign exchange options (bought) | - | 35,128 | 2,180,458 |
| Foreign exchange options (sold) | 37,591 | - | 2,082,554 |
| Interest rate swaps | 389,820 | 383,051 | 25,663,298 |
| Credit default swaps | - | 225 | 20,000 |
| Futures contracts purchased (Customer) | - | 990 | 119,422 |
| Futures contracts sold (Customer) | 660 | - | 122,862 |
| Futures contracts sold (Bank) | 990 | - | 119,422 |
| Futures contracts purchased (Bank) | - | 660 | 122,862 |
| | 808,766 | 872,229 | 77,136,902 |
| Held as cash flow hedges: | | | |
| Cross Currency Swaps | 55,152 | - | 270,735 |
| | 863,918 | 872,229 | 77,407,637 |

31 December 2016 (audited)

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| *Other assets* | | | | |
| Positive fair value of derivatives | - | 863,918 | - | 863,918 |
| *Other liabilities* | | | | |
| Negative fair value of derivatives | - | 872,229 | - | 872,229 |

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/year.

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 21. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the nine month period ended 30 September 2017 and 2016.

## 22. 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 88.05 % (31 December 2016: 87.76%) 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 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|
| Loans and advances measured at amortised cost | **2,918,571** | 2,586,403 |
| Customers' deposits | **1,358,306** | 1,216,323 |
| Letters of credit and guarantee | **1,091,417** | 1,163,375 |

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

| | **Period ended 30 September 2017 (un-audited) AED '000** | Period ended 30 September 2016 (un-audited) AED '000 |
|---|---|---|
| Interest income | **102,479** | 60,467 |
| Interest expense | **5,675** | 5,776 |
| Other income, net | **50,502** | 45,791 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 23. Segmental information

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

*Reportable segments*

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

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

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

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

3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

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

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

6. 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.

7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

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

## MASHREQBANK PSC GROUP

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

### 23. Segmental information (continued)

*Reportable segments* (continued)

| | Period from 1 January 2017 to 30 September 2017 (un-audited) | | | | | |
|---|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 | Insu AE |
| Net interest income and earnings from Islamic products | 655,903 | 765,999 | 39,087 | 526,351 | 253,781 | 3 |
| Other income, net | 309,144 | 383,266 | 442,595 | 407,426 | 82,621 | 29 |
| Total operating income | 965,047 | 1,149,265 | 481,682 | 933,777 | 336,402 | 32 |
| General and administrative expenses | | | | | | |
| Allowances for impairment | | | | | | |
| Profit before taxes | | | | | | |
| Overseas income tax expense | | | | | | |
| Profit for the period | | | | | | |
| Attributed to: | | | | | | |
| Owners of the Parent | | | | | | |
| Non-controlling interests | | | | | | |
| | 30 September 2017 (un-audited) | | | | | |
| Segment Assets | 33,412,771 | 13,274,460 | 16,994,757 | 28,758,032 | 9,806,709 | 4,61 |
| Segment Liabilities | 32,908,094 | 25,129,438 | 7,853,758 | 18,523,114 | 7,541,745 | 2,62 |

**MASHREQBANK PSC GROUP**

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 23. Segmental information (continued)

*Reportable segments* (continued)

| | Period from 1 January 2016 to 30 September 2016 (un-audited) | | | | | |
|---|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 | Insu AED |
| Net interest income and earnings from Islamic products | 633,583 | 834,508 | 26,178 | 522,176 | 232,038 | 4 |
| Other income, net | 345,085 | 461,962 | 401,010 | 584,975 | 68,863 | 28 |
| Total operating income | 978,668 | 1,296,470 | 427,188 | 1,107,151 | 300,901 | 32 |
| General and administrative expenses | | | | | | |
| Allowances for impairment | | | | | | |
| Profit before taxes | | | | | | |
| Overseas income tax expense | | | | | | |
| Profit for the period | | | | | | |
| Attributed to: | | | | | | |
| Owners of the Parent | | | | | | |
| Non-controlling interests | | | | | | |
| | 31 December 2016 (audited) | | | | | |
| Segment Assets | 30,910,557 | 13,579,281 | 17,004,042 | 32,505,293 | 8,797,296 | 4,70 |
| Segment Liabilities | 29,624,000 | 24,153,152 | 7,467,659 | 23,155,000 | 8,450,303 | 2,57 |

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 23. Segmental information (continued)

*Geographical information*

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

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

| | **Operating income external customers *** | | **Non-current assets **** | |
|---|---|---|---|---|
| | **9 months ended 30 September 2017 (un-audited) AED'000** | 9 months ended 30 September 2016 (un-audited) AED'000 | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
| U.A.E. | **3,607,830** | 3,784,835 | **1,790,495** | 1,654,537 |
| Other Middle East countries | **605,197** | 700,623 | **26,606** | 26,987 |
| O.E.C.D. | **179,678** | 141,171 | **7,230** | 3,625 |
| Other countries | **42,463** | 37,972 | **16,630** | 16,718 |
| | **4,435,168** | 4,664,601 | **1,840,961** | 1,701,867 |

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

** Non-current assets excluding financial instruments, deferred tax assets (if any), and assets arising from insurance contracts.

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 24. 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 2016.

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

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

## MASHREQBANK PSC GROUP

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**24. 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 (continu

| **Financial assets** | **Fair value as at** | | | |
|---|---|---|---|---|
| | **30 September 2017 (unaudited) AED'000** | 31 December 2016 (audited) AED'000 | **Fair value hierarchy** | **Valuation techniques and key inputs** |
| **Financial assets measured at FVTPL** | | | | |
| Quoted debt investments | **191,393** | 369,195 | Level 1 | Quoted bid prices in an active market |
| Quoted equity investments | **3,624** | - | Level 1 | Quoted bid prices in an active market |
| Mutual and other funds | **254,804** | 262,351 | Level 1 | Quoted bid prices in an active market |
| Unquoted debt investments | **322,464** | 680,364 | Level 2 | Based on the recent similar transaction in market |
| Unquoted debt investments | **60,862** | 63,837 | Level 3 | Based on discounted cashflow model |
| Mutual and other funds | **289,710** | 274,558 | Level 3 | Net assets values of the funds |
| Unquoted equity investments | **223** | 215 | Level 3 | Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information. |
| | **1,123,080** | 1,650,520 | | |

**MASHREQBANK PSC GROUP**
**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 24. 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 (continu

| Financial assets | Fair value as at 30 September 2017 (unaudited) AED'000 | 31 December 2016 (audited) AED'000 | Fair value hierarchy | Valuation techniques and key inputs | Sig un |
|---|---|---|---|---|---|
| **Financial assets measured at FVTOCI** | | | | | |
| Quoted equity investments | **395,375** | 384,214 | Level 1 | Quoted bid prices in an active market | N |
| Unquoted equity investments | **193,125** | 348,294 | Level 3 | Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information. | N |
| Mutual and Other funds | **10,696** | 36,171 | Level 1 | Quoted bid prices in an active market | N |
| | **599,196** | 768,679 | | | |
| | **1,722,276** | 2,419,199 | | | |

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

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**24. Fair value of financial instruments** (continued)

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

| | **9 months ended 30 September 2017 (unaudited) AED'000** | Year ended 31 December 2016 (audited) AED'000 |
|---|---|---|
| Balance at the beginning of the period/year | **338,610** | 395,834 |
| Purchases | **89,893** | 97,250 |
| Disposals/matured | **(113,639)** | (158,298) |
| Change in fair value | **35,931** | 3,824 |
| **Balance at the end of the period/year** | **350,795** | 338,610 |

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

| | **9 months ended 30 September 2017 (unaudited) AED'000** | Year ended 31 December 2016 (audited) AED'000 |
|---|---|---|
| Balance at the beginning of the period/year | **348,294** | 216,650 |
| Purchases | **-** | 106,165 |
| Disposals | **(153,676)** | (16,643) |
| Change in fair value | **(1,493)** | 42,122 |
| **Balance at the end of the period/year** | **193,125** | 348,294 |

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

All gain and losses included in 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 'investments revaluation reserve'.

Fair value of financial instruments measured at amortised cost

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

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

**24. Fair value of financial instruments** (continued)

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

| | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|
| **30 September 2017 (un-audited)** | **AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | **12,361,342** | **8,987,918** | **1,452,783** | **1,947,285** | **12,387,986** |
| 31 December 2016 (audited) | | | | | |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | 10,849,298 | 7,070,188 | 1,237,774 | 2,450,533 | 10,758,495 |

| | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|
| **30 September 2017 (un-audited)** | **AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| *Financial liabilities* | | | | | |
| Medium-term notes | **6,488,306** | **1,284,722** | **-** | **5,216,673** | **6,501,395** |
| 31 December 2016 (audited) | | | | | |
| *Financial liabilities* | | | | | |
| Medium-term notes | 3,135,360 | 1,786,183 | - | 1,340,883 | 3,127,066 |

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 30 September 2017 and 2016:

**Notes to the condensed consolidated financial statements**
**for the period from 1 January 2017 to 30 September 2017** (continued)

## 24. Fair value of financial instruments (continued)

Fair value sensitivity analysis (continued)

| | Reflected in condensed consolidated income statement | | Reflected in condensed consolidated statement of comprehensive income | |
|---|---|---|---|---|
| | **Favourable change AED'000** | **Unfavourable change AED'000** | **Favourable change AED'000** | **Unfavourable change AED'000** |
| **30 September 2017 (un-audited)** | | | | |
| **Other financial assets measured at fair value** | **112,308** | **(112,308)** | **59,920** | **(59,520)** |
| 30 September 2016 (un-audited) | | | | |
| Other financial assets measured at fair value | 248,557 | (248,557) | 72,252 | (72,252) |

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

## 25. Capital adequacy ratio

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

| | | **30 September 2017 (un-audited) AED'000** | 31 December 2016 (audited) AED'000 |
|---|---|---|---|
| ***Capital base*** | | | |
| Tier 1 capital | | **20,067,791** | 18,964,765 |
| Tier 2 capital | | **1,080,840** | 1,077,165 |
| **Total capital base** | **(A)** | **21,148,631** | 20,041,930 |
| ***Risk-weighted assets*** | | | |
| Credit risk | | **105,054,463** | 106,007,825 |
| Market risk | | **2,014,952** | 2,498,202 |
| Operational risk | | **10,367,924** | 10,367,924 |
| **Total risk-weighted assets** | **(B)** | **117,437,339** | 118,873,951 |
| **Capital adequacy ratio (%) [(A)/(B) x 100]** | | **18.01%** | 16.86% |

## 25. Capital adequacy ratio (continued)

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer is 11.75% for year 2017, which will increase to 12.375% and 13.0% for year 2018 and year 2019 respectively.

During 2017, Central Bank will issue detailed guidelines for calculation of Capital requirement as per Basel III.

## 26. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 42 were approved by the Board of Directors on 16 October 2017

**MASHREQBANK PSC GROUP**

**Report and consolidated financial statements for the year ended 31 December 2016**

**MASHREQBANK PSC GROUP**

**Report and consolidated financial statements for the year ended 31 December 2016**

**Contents** **Pages**


| | |
|---|---|
| **Independent auditor's report** | **1 - 9** |
| **Consolidated statement of financial position** | **10** |
| **Consolidated income statement** | **11** |
| **Consolidated statement of comprehensive income** | **12** |
| **Consolidated statement of changes in equity** | **13** |
| **Consolidated statement of cash flows** | **14 - 15** |
| **Notes to the consolidated financial statements** | **16 - 118** |

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# INDEPENDENT AUDITOR'S REPORT

**The Shareholders**
**Mashreqbank psc**
**Dubai**
**United Arab Emirates**

## Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of **Mashreqbank psc (the "Bank") and its subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Mashreqbank psc and its subsidiaries, as at 31 December 2016, and its consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for Opinion

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

## Key Audit Matters

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

Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practising auditors with the UAE Ministry of Economy.

**INDEPENDENT AUDITOR'S REPORT** (continued)

**Key Audit Matters (continued)**

| Key audit matter | How our audit addressed the key audit matters |
|---|---|
| ***Impairment of loans and advances and Islamic financing*** | |
| The management exercises significant judgment when determining both when and how much to record as loan impairment provisions. Because of the significance of these judgements and the size of loans and advances and Islamic financing, the audit of allowance for related impairment provisions is a key area of focus. At 31 December 2016, the total of gross loans and advances and Islamic finance was AED 64 billion (2015: AED 63 billion) against which allowance for impairment provisions of AED 3.3 billion were recorded (2015: AED 2.8 billion). Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment.<br><br>The accounting policies and critical judgments relative to the calculations of the impairment provisions on loans and advances and Islamic financing are summarised in Note 3.14 and Note 4.1 to the consolidated financial statements respectively.<br><br>The Group uses two methods in its calculations of impairment provisions on loans and advances and Islamic financing: | Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances.<br><br>We tested the design, implementation and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing:<br><br>• System-based and manual controls over the timely recognition of impaired loans and advances;<br>• Controls over the impairment calculation models including data inputs;<br>• Controls over collateral valuation estimates<br>• Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management.<br><br>We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk. |

**INDEPENDENT AUDITOR'S REPORT** (continued)

**Key Audit Matters (continued)**

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

**Key Audit Matters (continued)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of financial instruments including derivatives*** | |
| The fair value of financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by management and the use of assumptions and estimates. Due to the significance of financial instruments (financial instruments measured at fair value represent 3% of total assets) and the related estimation uncertainty, this is considered a key audit risk. Fair values are generally obtained by reference to quoted market prices, third party quotes, discounted cash flow models and recognised pricing models as appropriate. | Our audit procedures included the assessment of controls over the identification, measurement and management of valuation risk, and evaluating the methodologies, inputs and assumptions used by the Group in determining fair values. For the Group's fair value models, we assessed the appropriateness of the models and inputs. We compared observable inputs against independent sources and externally available market data.<br><br>For a sample of instruments with the assistance of our own valuation specialists, we critically assessed the assumptions and models used, by reference to what we considered to be available alternative methods and sensitivities to key factors.<br><br>We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to the key assumptions. |

**INDEPENDENT AUDITOR'S REPORT** (continued)

**Key Audit Matters (continued)**

| Key audit matter | How our audit addressed the key audit matters |
|---|---|
| ***Valuation of Insurance contract liabilities*** | |
| As at 31 December 2016, net insurance contract liabilities amounted to AED 1.5 billion, as detailed in note 18 to these consolidated financial statements.<br><br>As set out in note 3.18 and note 4.6, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management.<br><br>This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves. A range of methods are used by management and the internal actuary/independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.<br><br>Furthermore, valuation of life insurance contract liabilities involves complex and subjective judgement made by management and the internal actuary/independent external actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities.<br><br>The valuation of these liabilities also depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. As a result of all of the above factors, insurance contract liabilities represent a significant risk for the Group. | Our audit procedures included:<br><br>• Testing the underlying Group data to source documentation.<br><br>• Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group.<br><br>• Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process.<br><br>• Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters.<br><br>• Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations.<br><br>In addition, with the assistance of our actuarial specialists, we:<br><br>• performed necessary reviews to ascertain whether the results are appropriate for financial disclosure.<br><br>• reviewed the actuarial report compiled by the independent external actuaries of the Group and calculations underlying these provisions, particularly the following areas;<br><br>  • appropriateness of the calculation methods and approach (actuarial best practice)<br>  • review of assumptions<br>  • sensitivities to key assumptions<br>  • risk profiles<br>  • consistency between valuation periods<br>  • general application of financial and mathematical rules |

**INDEPENDENT AUDITOR'S REPORT** (continued)

**Key Audit Matters (continued)**

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

**INDEPENDENT AUDITOR'S REPORT** (continued)

**Other information**

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

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

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

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

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

**Responsibilities of Management for the Consolidated Financial Statements**

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT** (continued)

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

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

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

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

iii) The Group has maintained proper books of account;

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

v) As disclosed in Note 7 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2016;

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

vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and

viii) Note 31 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2016.

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

Musa Ramahi
Partner
Registration No. 872

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

25 January 2017

## Consolidated statement of financial position at 31 December 2016

| | Notes | 2016 AED'000 | 2016 USD'000 Equivalent | 2015 AED'000 | 2015 USD'000 Equivalent |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central banks | 5 | **18,629,582** | **5,072,034** | 19,423,463 | 5,288,174 |
| Deposits and balances due from banks | 6 | **18,667,750** | **5,082,426** | 15,009,990 | 4,086,575 |
| Other financial assets measured at fair value | 7 | **2,419,199** | **658,644** | 3,924,965 | 1,068,599 |
| Loans and advances measured at amortised cost | 8 | **53,428,461** | **14,546,273** | 53,555,070 | 14,580,743 |
| Islamic financing and investment products measured at amortised cost | 9 | **7,565,063** | **2,059,641** | 6,610,606 | 1,799,784 |
| Other financial assets measured at amortised cost | 7 | **10,849,298** | **2,953,797** | 7,993,072 | 2,176,170 |
| Other assets | 10 | **9,552,316** | **2,600,685** | 6,928,970 | 1,886,461 |
| Goodwill | 11 | **15,365** | **4,183** | 18,150 | 4,940 |
| Investment properties | 12 | **520,864** | **141,809** | 527,525 | 143,622 |
| Property and equipment | 13 | **1,165,638** | **317,353** | 1,165,370 | 317,280 |
| **Total assets** | | **122,813,536** | **33,436,845** | 115,157,181 | 31,352,348 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Deposits and balances due to banks | 14 | **8,932,076** | **2,431,820** | 9,231,913 | 2,513,453 |
| Repurchase agreements with banks | 15 | **605,600** | **164,879** | 734,564 | 199,990 |
| Customers' deposits | 16 | **69,947,124** | **19,043,595** | 65,243,790 | 17,763,079 |
| Islamic customers' deposits | 17 | **7,093,383** | **1,931,223** | 8,391,490 | 2,284,642 |
| Insurance and life assurance funds | 18 | **1,510,758** | **411,314** | 1,559,704 | 424,640 |
| Other liabilities | 19 | **10,267,090** | **2,795,287** | 7,404,136 | 2,015,828 |
| Medium-term loans | 20 | **4,971,860** | **1,353,624** | 4,105,856 | 1,117,848 |
| **Total liabilities** | | **103,327,891** | **28,131,742** | 96,671,453 | 26,319,480 |
| **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) | **899,351** | **244,855** | 896,595 | 244,104 |
| General reserve | 21(c) | **312,000** | **84,944** | 312,000 | 84,944 |
| Cumulative translation adjustment | 21(d) | **(298,562)** | **(81,286)** | (60,610) | (16,501) |
| Investments revaluation reserve | 21(e) | **(248,283)** | **(67,597)** | (276,416) | (75,256) |
| Cash flow hedging reserve | 21(f) | **7,624** | **2,076** | 9,221 | 2,510 |
| Retained earnings | | **16,310,198** | **4,440,566** | 15,112,512 | 4,114,487 |
| **Equity attributable to owners of the Parent** | | **18,757,636** | **5,106,898** | 17,768,610 | 4,837,628 |
| Non-controlling interests | 22 | **728,009** | **198,205** | 717,118 | 195,240 |
| **Total equity** | | **19,485,645** | **5,305,103** | 18,485,728 | 5,032,868 |
| **Total liabilities and equity** | | **122,813,536** | **33,436,845** | 115,157,181 | 31,352,348 |

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

**Abdulla Bin Ahmad Al Ghurair**
**Chairman**

**Abdul Aziz Abdulla Al Ghurair**
**Chief Executive Officer**

## Consolidated income statement for the year ended 31 December 2016

| | Notes | 2016 AED'000 | 2016 USD'000 Equivalent | 2015 AED'000 | 2015 USD'000 Equivalent |
|---|---|---|---|---|---|
| Interest income | 24 | **4,466,079** | **1,215,921** | 4,101,946 | 1,116,784 |
| Income from Islamic financing and investment products | 25 | **347,555** | **94,624** | 258,293 | 70,322 |
| Total interest income and income from Islamic financing and investment products | | **4,813,634** | **1,310,545** | 4,360,239 | 1,187,106 |
| Interest expense | 26 | **(1,345,530)** | **(366,330)** | (1,033,192) | (281,294) |
| Distribution to depositors – Islamic products | 27 | **(105,737)** | **(28,788)** | (65,258) | (17,767) |
| **Net interest income and income from Islamic products net of distribution to depositors** | | **3,362,367** | **915,427** | 3,261,789 | 888,045 |
| Fee and commission income | 28 | **3,049,142** | **830,150** | 3,024,587 | 823,465 |
| Fee and commission expenses | 28 | **(1,364,469)** | **(371,486)** | (1,300,179) | (353,983) |
| **Net fee and commission income** | | **1,684,673** | **458,664** | 1,724,408 | 469,482 |
| Net investment income | 29 | **262,517** | **71,472** | 169,106 | 46,040 |
| Other income, net | 30 | **859,068** | **233,887** | 822,202 | 223,850 |
| **Operating income** | | **6,168,625** | **1,679,450** | 5,977,505 | 1,627,417 |
| General and administrative expenses | 31 | **(2,406,701)** | **(655,241)** | (2,472,527) | (673,163) |
| Allowances for impairment, net | 32 | **(1,733,659)** | **(472,001)** | (999,805) | (272,204) |
| **Profit before taxes** | | **2,028,265** | **552,208** | 2,505,173 | 682,050 |
| Overseas income tax expense | | **(74,354)** | **(20,243)** | (70,528) | (19,202) |
| **Profit for the year** | | **1,953,911** | **531,965** | 2,434,645 | 662,848 |
| **Attributed to:** | | | | | |
| Owners of the Parent | | **1,926,412** | **524,479** | 2,402,107 | 653,990 |
| Non-controlling interests | | **27,499** | **7,486** | 32,538 | 8,858 |
| | | **1,953,911** | **531,965** | 2,434,645 | 662,848 |
| **Earnings per share** | 33 | **AED 10.85** | **USD 2.95** | AED 13.53 | USD 3.68 |

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

## Consolidated statement of comprehensive income for the year ended 31 December 2016

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **AED'000** | **USD'000 Equivalent** | AED'000 | USD'000 Equivalent |
| **Profit for the year** | **1,953,911** | **531,965** | 2,434,645 | 662,848 |
| **Other comprehensive income/(loss)** | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | |
| Changes in fair value of financial assets measured at fair value through other comprehensive income, net [Note 7(l)] | **12,330** | **3,357** | (178,066) | (48,480) |
| *Items that will be reclassified subsequently to profit or loss:* | | | | |
| Exchange difference arising on translating the foreign operations | **(236,665)** | **(64,434)** | (743) | (202) |
| Loss on hedging instruments designated in hedges of the net assets of foreign operations | **(1,287)** | **(350)** | (6,552) | (1,784) |
| Cash flow hedges - fair value (loss)/gain arising during the year [Note 21(f)] | **(1,597)** | **(435)** | 9,221 | 2,510 |
| **Total other comprehensive loss for the year** | **(227,219)** | **(61,862)** | (176,140) | (47,956) |
| **Total comprehensive income for the year** | **1,726,692** | **470,103** | 2,258,505 | 614,892 |
| **Attributed to:** | | | | |
| Owners of the Parent | **1,699,146** | **462,604** | 2,282,036 | 621,299 |
| Non-controlling interests | **27,546** | **7,499** | (23,531) | (6,407) |
| | **1,726,692** | **470,103** | 2,258,505 | 614,892 |

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

## MASHREQBANK PSC GROUP

## Consolidated statement of changes in equity for the year ended 31 December 2016

| | Issued and paid up capital AED'000 | Statutory and legal reserves AED'000 | General reserve AED'000 | Cumulative translation adjustment AED'000 | Investments revaluation reserve AED'000 | Cash flow hedging reserve AED'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 1,690,770 | 852,582 | 312,000 | (53,315) | (152,150) | - |
| Profit for the year | - | - | - | - | | - |
| Other comprehensive income/(loss) for the year | - | - | - | (7,295) | (121,997) | 9,221 |
| Total comprehensive income/(loss) for the year | - | - | - | (7,295) | (121,997) | 9,221 |
| Issue of bonus shares [Note 21(a)] | 84,538 | - | - | - | - | - |
| Transfer from investment revaluation reserve to retained earnings | - | - | - | - | (2,269) | - |
| Transfer to statutory and legal reserves | - | 44,013 | - | - | - | - |
| Payment of dividends [Note 21(g)] | - | - | - | - | - | - |
| Additional contribution attributable to the new non-controlling interest shareholders (Note 22) | - | - | - | - | - | - |
| Balance at 31 December 2015 | 1,775,308 | 896,595 | 312,000 | (60,610) | (276,416) | 9,221 |
| **Profit for the year** | - | - | - | - | - | - |
| **Other comprehensive income/(loss) for the year** | - | - | - | **(237,952)** | **12,283** | **(1,597)** |
| **Total comprehensive income/(loss) for the year** | - | - | - | **(237,952)** | **12,283** | **(1,597)** |
| **Transfer from investment revaluation reserve to retained earnings** | - | - | - | - | **15,850** | - |
| **Transfer to statutory and legal reserves** | - | **2,756** | - | - | - | - |
| **Payment of dividends [Note 21(g)]** | - | - | - | - | - | - |
| **Balance at 31 December 2016** | **1,775,308** | **899,351** | **312,000** | **(298,562)** | **(248,283)** | **7,624** |

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

## Consolidated statement of cash flows for the year ended 31 December 2016

| | Notes | 2016 AED'000 | 2016 USD'000 Equivalent | 2015 AED'000 | 2015 USD'000 Equivalent |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before taxation for the year | | **2,028,265** | **552,208** | 2,505,173 | 682,051 |
| Adjustments for: | | | | | |
| Depreciation of property and equipment | 13 | **155,611** | **42,366** | 148,637 | 40,467 |
| Allowances for impairment, net | 32 | **1,733,659** | **472,001** | 999,805 | 272,204 |
| (Gain)/loss on disposal of property and equipment | 30 | **(53,837)** | **(14,658)** | 4,959 | 1,350 |
| Reversal of impairment on property and equipment | 13 | **(35,171)** | **(9,576)** | | |
| Loss from disposal of investment properties | 30 | **250** | **69** | - | - |
| Fair value adjustments of other financial assets measured at FVTPL | 29 | **(6,310)** | **(1,718)** | 41,291 | 11,242 |
| Fair value adjustments of investment properties | 30 | **2,161** | **588** | (34,196) | (9,310) |
| Net realised gain from sale of other financial assets measured at FVTPL | 29 | **(24,029)** | **(6,542)** | (33,305) | (9,068) |
| Dividend income from financial assets measured at FVTOCI | 29 | **(26,878)** | **(7,318)** | (26,088) | (7,103) |
| Net realised loss from sale of other financial assets measured at amortised cost | 29 | **490** | **133** | 10,345 | 2,816 |
| Fair value adjustment – derivatives | 30 | **(6,954)** | **(1,893)** | (7,070) | (1,925) |
| **Operating cash flows before changes in operating assets and liabilities** | | **3,767,257** | **1,025,660** | 3,609,551 | 982,724 |
| Increase in deposits with central banks | | **(430,654)** | **(117,249)** | (1,674,668) | (455,940) |
| Increase in deposits and balances due from banks maturing after three months | | **(1,997,519)** | **(543,839)** | (3,333) | (907) |
| Increase in loans and advances measured at amortised cost | | **(1,512,319)** | **(411,739)** | (2,282,576) | (621,447) |
| Increase in Islamic financing and investment products measured at amortised cost | | **(1,011,571)** | **(275,407)** | (832,666) | (226,699) |
| Increase in other assets | | **(2,651,224)** | **(721,814)** | (939,587) | (255,809) |
| Increase/(decrease) in other financial assets carried at FVTPL | | **210,633** | **57,347** | (856,247) | (233,119) |
| (Decrease)/increase in repurchase agreements with banks | | **(128,964)** | **(35,111)** | 111,528 | 30,364 |
| Increase in customers' deposits | | **4,703,334** | **1,280,516** | 1,938,413 | 527,747 |
| (Decrease)/increase in Islamic customers' deposits | | **(1,298,107)** | **(353,419)** | 3,208,724 | 873,598 |
| Increase in medium-term loans (not qualified as Tier 2 capital) | | **866,004** | **235,776** | 97,613 | 26,576 |
| Increase in deposits and balances due to banks | | **(299,837)** | **(81,633)** | 1,007,380 | 274,266 |
| Decrease in insurance and life assurance funds | | **(48,946)** | **(13,326)** | (95,435) | (25,983) |
| Increase in other liabilities | | **2,862,954** | **779,459** | 1,481,502 | 403,349 |
| Overseas tax paid | | **(74,354)** | **(20,243)** | (70,528) | (19,202) |
| **Net cash generated from operating activities** | | **2,956,687** | **804,978** | 4,699,671 | 1,279,518 |

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

**Consolidated statement of cash flows**
**for the year ended 31 December 2016** (continued)

| | Notes | 2016 AED'000 | 2016 USD'000 Equivalent | 2015 AED'000 | 2015 USD'000 Equivalent |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Purchase of property and equipment | 13 | **(136,063)** | **(37,043)** | (231,119) | (62,924) |
| Proceeds from sale of property and equipment | | **69,192** | **18,838** | 18,273 | 4,975 |
| Proceeds from sale of investment properties | | **4,250** | **1,157** | (3,012) | (820) |
| Net increase in other financial assets measured at amortised cost | | **(1,419,720)** | **(386,529)** | (389,865) | (106,143) |
| Net increase in other financial assets measured at FVTOCI | | **(99,194)** | **(27,006)** | (45,436) | (12,370) |
| Dividend income from other financial assets measured at FVTOCI | 29 | **26,878** | **7,318** | 26,088 | 7,103 |
| **Net cash used in investing activities** | | **(1,554,657)** | **(423,265)** | (625,071) | (170,179) |
| **Cash flows from financing activities** | | | | | |
| Dividend paid | | **(726,775)** | **(197,870)** | (694,437) | (189,064) |
| Additional contribution by non-controlling interest | 22 | **-** | **-** | 3,110 | 847 |
| **Net cash used in financing activities** | | **(726,775)** | **(197,870)** | (691,327) | (188,217) |
| **Net increase in cash and cash equivalents** | | **675,255** | **183,843** | 3,383,273 | 921,121 |
| Net foreign exchange difference | | **(239,549)** | **(65,219)** | 1,926 | 524 |
| Cash and cash equivalents at 1 January | | **19,877,731** | **5,411,852** | 16,492,532 | 4,490,207 |
| **Cash and cash equivalents at 31 December** | 35 | **20,313,437** | **5,530,476** | 19,877,731 | 5,411,852 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016**

## 1 General information

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

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

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

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts.*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

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

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

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

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • Amendments to IAS 12 relating to recognition of *Deferred Tax Assets for Unrealised Losses*. | 1 January 2017 |
| • Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. | 1 January 2017 |
| • Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.<br>➢ **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.<br>➢ **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.<br>➢ **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.<br>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.<br>A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract. | 1 January 2018 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

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

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

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<br><br>The interpretation addresses foreign currency transactions or parts of transactions where:<br>➢ there is consideration that is denominated or priced in a foreign currency;<br>➢ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and<br>➢ the prepayment asset or deferred income liability is non-monetary. | 1 January 2018 |
| • IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. | 1 January 2018 |
| • Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | 1 January 2018 |
| • IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. | 1 January 2019 |
| • Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from investor to its associate or joint venture | Effective date deferred indefinitely |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies

### 3.1 Statement of compliance

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

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

### 3.2 Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The principal accounting policies are set out below:

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.3 Basis of consolidation

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

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

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

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

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

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

### 3.4 Business combinations

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

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

## 3 Summary of significant accounting policies (continued)

### 3.4 Business combinations (continued)

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

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.5 Goodwill

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

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

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

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

### 3.6 Revenue recognition

*Interest income and expense*

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

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

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

*Income from Islamic financing and investments products*

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.6 Revenue recognition (continued)

*Fee and commission income and expenses*

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

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

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

*Dividend revenue*

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

*Insurance contracts revenue and insurance commission income*

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

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

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

*Gain or loss from redemption of medium-term loans*

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

*Rental income*

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

*Rendering of services*

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.7 Leasing

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

3.7.1 The Group as lessor

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

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

3.7.2 The Group as lessee

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

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

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

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

### 3.8 Foreign currencies

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.8 Foreign currencies (continued)

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

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

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.9 Borrowing costs

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

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

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

### 3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.10 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.

### 3.11 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the period in which they arise.

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

### 3.12 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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 income statement.

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.13 Provisions

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

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

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

### 3.14 Financial instruments

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

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

3.14.1 Financial assets

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

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'.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

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

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

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

Financial assets at amortised cost

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

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

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

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

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

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

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

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

A financial asset is held for trading if:

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**3 Summary of significant accounting policies** (continued)

**3.14 Financial instruments** (continued)

3.14.1 Financial assets (continued)

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

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

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

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

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrecovable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

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

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

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

Reclassification

Reclassification of financial assets

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Reclassification (continued)

*Reclassification from FVTPL to Amortised Cost*

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

Effective interest method

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

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

Foreign exchange gains and losses

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

***(i) Individually assessed loans***

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

***(ii) Collectively assessed loans***

Impairment losses of collectively assessed loans include the allowances on:

***(a) Performing commercial and other loans***

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

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

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

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

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

Derecognition of financial assets

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition of financial assets (continued)

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

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

3.14.2 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

***Financial liabilities subsequently measured at amortised cost***

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**3 Summary of significant accounting policies** (continued)

**3.14 Financial instruments** (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

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

***Financial guarantee contracts***

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

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

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

***Derecognition of financial liabilities***

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

***Financial liabilities at FVTPL***

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

A financial liability is classified as held for trading if:

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

***Financial liabilities at FVTPL*** (continued)

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

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

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

### 3.15 Offsetting of financial assets and liabilities

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

### 3.16 Derivative financial instruments

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

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

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

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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.17 Hedge accounting

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

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

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

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

Cash flow hedges

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.17 Hedge accounting (continued)

Hedges of net investments in foreign operations

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

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

### 3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

Under IFRS 4 *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.

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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.5 Reinsurance contracts

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

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

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

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

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(b) Additional reserve (continued)

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

(c) Life assurance fund

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

(d) Unit linked liabilities

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

(e) Outstanding claims

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

3.18.7 Policy acquisition costs

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

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

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.8 Salvage and subrogation reimbursements

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

3.18.9 Liability adequacy test

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

3.18.10 Receivables and payables related to insurance contracts

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

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

### 3.19 Taxation

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

### 3.20 Islamic financing and investment products

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

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

*(i) Definitions*

The following terms are used in Islamic financing:

***Murabaha***

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 3 Summary of significant accounting policies (continued)

### 3.20 Islamic financing and investment products (continued)

*(i) Definitions* (continued)

***Ijara***

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

***Musharaka***

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

***Mudaraba***

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

***Wakala***

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

*(ii) Accounting policy*

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**3 Summary of significant accounting policies** (continued)

**3.20 Islamic financing and investment products** (continued)

*(iii) Revenue recognition policy*

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

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

***Murabaha***

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

***Ijara***

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

***Musharaka***

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

***Mudaraba***

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

***Wakala***

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

*(iv) Islamic customers' deposits and distributions to depositors*

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

### 4.1 Impairment of financial assets measured at amortised cost

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

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

**Individually assessed loans and advances**

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

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

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

**Collectively assessed loans and advances**

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

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

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

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

### 4.2 Property and equipment

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

### 4.3 Fair value of financial instruments

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

### 4.4 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models, 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:

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

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

### 4.4 Derivative financial instruments (continued)

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

(b) An appropriate discount rate of the instrument. Management determines this rate by observing market pricing data. When valuing instruments by reference to comparable instruments, management takes into account the maturity and structure with which the position held is being compared.

### 4.5 Investment properties

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

### 4.6 The ultimate liability arising from claims made under insurance contracts

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

### 4.7 Classification and measurement of financial assets

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

### 4.8 Fair value measurements and valuation processes

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 5 Cash and balances with central banks

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Cash on hand | **1,049,505** | 845,591 |
| Balances with central banks: | | |
| Current accounts and other balances | **6,774,795** | 8,203,244 |
| Statutory deposits | **6,905,282** | 6,674,628 |
| Certificates of deposit | **3,900,000** | 3,700,000 |
| | **18,629,582** | 19,423,463 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Balances within the U.A.E. | **12,048,216** | 10,876,322 |
| Balances outside the U.A.E. | **6,581,366** | 8,547,141 |
| | **18,629,582** | 19,423,463 |

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.74% (2015: 0.40%) per annum.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 6 Deposits and balances due from banks

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Demand | **1,418,631** | 2,011,629 |
| Overnight | **55,000** | 192,997 |
| Time | **17,194,119** | 12,805,486 |
| | **18,667,750** | 15,010,112 |
| Less: Allowance for impairment | **-** | (122) |
| | **18,667,750** | 15,009,990 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Banks within the U.A.E. | **3,454,654** | 1,451,658 |
| Banks outside the U.A.E. | **15,213,096** | 13,558,454 |
| | **18,667,750** | 15,010,112 |
| Less: Allowance for impairment | **-** | (122) |
| | **18,667,750** | 15,009,990 |

(c) Allowance for impairment movement

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **122** | 24,444 |
| Charged during the year (Note 32) | **-** | 261 |
| (Reversal of)/Interest in suspense | **(122)** | 1,790 |
| Written off during the year | **-** | (26,373) |
| At 31 December | **-** | 122 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 7 Other financial assets

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

| | | **2016 AED'000** | 2015 AED'000 |
|---|---|---|---|
| **Other financial assets measured at fair value** | | | |
| (i) **Financial assets measured at fair value through profit and loss (FVTPL)** | | | |
| *Debt securities* | | | |
| Corporate bonds and treasury bills | | **1,008,996** | 2,624,985 |
| Sukuk | | **104,400** | 36,027 |
| | | **1,113,396** | 2,661,012 |
| *Equities* | | | |
| Quoted | | **-** | 16,548 |
| Unquoted | | **215** | 508 |
| | | **215** | 17,056 |
| Mutual and other funds | | **536,909** | 589,742 |
| | | **1,650,520** | 3,267,810 |
| (ii) **Financial assets measured at fair value through other comprehensive income (FVTOCI)** | | | |
| *Equities* | | | |
| Quoted | | **384,214** | 402,783 |
| Unquoted | | **348,294** | 216,650 |
| | | **732,508** | 619,433 |
| Mutual and other funds [Note 7(g)] | | **36,171** | 37,722 |
| | | **768,679** | 657,155 |
| **Total other financial assets measured at fair value** | **(A)** | **2,419,199** | 3,924,965 |
| (iii) **Financial assets measured at amortised cost** | | | |
| *Debt securities* | | | |
| Bonds | | **10,014,326** | 7,141,930 |
| Sukuk | | **946,970** | 963,140 |
| Less: Allowance for impairment | | **(111,998)** | (111,998) |
| **Total other financial assets measured at amortised cost** | **(B)** | **10,849,298** | 7,993,072 |
| **Total other financial assets [(A) +(B)]** | | **13,268,497** | 11,918,037 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

7 **Other financial assets** (continued)

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Balances within the U.A.E. | **3,494,333** | 3,338,488 |
| Balances outside the U.A.E. | **9,774,164** | 8,579,549 |
| | **13,268,497** | 11,918,037 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Government and Public Sector | **5,935,271** | 5,323,051 |
| Commercial and Business | **1,582,603** | 750,371 |
| Financial Institutions | **5,471,961** | 5,039,235 |
| Other | **278,662** | 805,380 |
| | **13,268,497** | 11,918,037 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **111,998** | 145,850 |
| Reversal during the year (Note 32) | **-** | (33,852) |
| At 31 December | **111,998** | 111,998 |

(e) The fair value of other financial assets measured at amortised cost amounted to AED 10.76 billion as of 31 December 2016 (2015: AED 7.92 billion) (Note 43).

(f) The other financial assets measured at amortised costs include debt securities aggregating to notional value of AED 623 million (fair value of AED 634 million) [2015: AED 750 million (fair value of AED 766 million)] which were collateralised against repurchase agreements with banks ("Repo") (Note 15).

(g) Other financial assets measured at FVTOCI include AED 36 million (2015: AED 38 million) investment in Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and the fair value of the fund is based on quoted market prices.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 7 Other financial assets (continued)

(h) Other financial assets measured at FVTPL include AED 225 million (2015: AED 245 million) which represents investments in Makaseb Income Fund, Mashreq Al Islami Income Fund and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity and coupon rate. The fair value of these investments is based on quoted market prices.

(i) As of 31 December 2016, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(j) During the year ended 31 December 2016, dividends received from financial assets measured at FVTOCI amounting to AED 27 million (2015: AED 26 million) were recognised as investment income in the consolidated income statement (Note 29).

(k) During the year ended 31 December 2016, change in fair value of other financial assets measured at FVTPL amounted to a profit of AED 6 million (2015: a loss of AED 41 million) and was recognised as investment income in the consolidated income statement (Note 29).

(l) During the year ended 31 December 2016, change in fair value of financial assets measured at FVTOCI amounted to a profit of AED 12 million (2015: a loss of AED 178 million) and was recognised in the consolidated statement of comprehensive income.

(m) During the year ended 31 December 2016, the Group purchased and disposed equity shares amounted to AED 250 million (2015: 206 million) and AED 174 million (2015: 150 million) respectively.

(n) Other financial assets measured at amortised cost include AED 1.4 billion (2015: Nil) which represent investments reclassified from investments previously measured at FVTPL. Due to this reclassification, the net profit for the year ended 31 December 2016 has increased by AED 3.4 million (2015: Nil).

## 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:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Loans | **48,720,940** | 48,201,075 |
| Overdrafts | **4,684,243** | 4,563,342 |
| Credit cards | **2,784,011** | 3,167,485 |
| Other | **459,800** | 389,337 |
| | **56,648,994** | 56,321,239 |
| Less: Allowance for impairment | **(3,220,533)** | (2,766,169) |
| | **53,428,461** | 53,555,070 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 8 Loans and advances measured at amortised cost (continued)

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Manufacturing | **3,864,320** | 3,902,432 |
| Construction | **5,503,953** | 3,849,313 |
| Trade | **9,010,501** | 11,102,269 |
| Transport and communication | **3,844,615** | 4,282,487 |
| Services | **5,698,416** | 4,820,698 |
| Financial institutions | **1,824,699** | 660,483 |
| Personal | **16,581,261** | 16,604,872 |
| Government and related enterprises | **10,304,888** | 10,807,900 |
| Other | **16,341** | 290,785 |
| | **56,648,994** | 56,321,239 |
| Less: Allowance for impairment | **(3,220,533)** | (2,766,169) |
| | **53,428,461** | 53,555,070 |

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated income statement. The value of loans and advances on which interest is not taken to consolidated income statement, including fully provided accounts, amounted to AED 2.20 billion at 31 December 2016 (2015: AED 1.95 billion) (Note 43).

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **2,766,169** | 3,136,593 |
| Impairment allowance for the year (Note 32) | **903,225** | 789,214 |
| Interest suspended | **117,174** | 84,835 |
| Exchange and other adjustments | **(46,986)** | (4,440) |
| Recoveries during the year (Note 32) | **(3,900)** | (5,215) |
| Written off during the year | **(515,149)** | (1,234,818) |
| At 31 December | **3,220,533** | 2,766,169 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 8 Loans and advances measured at amortised cost (continued)

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

## 9 Islamic financing and investment products measured at amortised cost

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| **Financing** | | |
| Murabaha | **3,694,743** | 3,907,356 |
| Ijara | **3,122,514** | 1,672,605 |
| | **6,817,257** | 5,579,961 |
| **Investment** | | |
| Mudaraba | **232,355** | 182,813 |
| Wakala | **728,496** | 1,112,519 |
| | **960,851** | 1,295,332 |
| **Total** | **7,778,108** | 6,875,293 |
| Less: Unearned income | **(157,800)** | (216,056) |
| Allowance for impairment | **(55,245)** | (48,631) |
| | **7,565,063** | 6,610,606 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**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:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Manufacturing | **605,964** | 692,410 |
| Construction | **1,988,459** | 1,263,384 |
| Trade | **799,626** | 1,229,460 |
| Transport and communication | **323,846** | 778,105 |
| Services | **1,835,386** | 840,012 |
| Financial institutions | **278,256** | 23,576 |
| Personal | **1,783,541** | 1,607,374 |
| Government and related enterprises | **163,030** | 440,972 |
| **Total** | **7,778,108** | 6,875,293 |
| Less: Unearned income | **(157,800)** | (216,056) |
| Allowance for impairment | **(55,245)** | (48,631) |
| | **7,565,063** | 6,610,606 |

(c) The value of Islamic financing and investment products on which profit is not taken to consolidated income statement, including fully provided accounts, amounted to AED 71 million as at 31 December 2016 (2015: AED 62 million) (Note 43).

(d) *Allowance for impairment movement*:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **48,631** | 48,014 |
| Impairment allowance/(reversal of impairment) during the year, net (Note 32) | **19,775** | (382) |
| (Reversal of)/profit in suspense | **(145)** | 999 |
| Written off during the year | **(13,016)** | - |
| At 31 December | **55,245** | 48,631 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 10 Other assets

| | **2016** **AED'000** | 2015 AED'000 |
|---|---|---|
| Interest receivable | **237,529** | 184,702 |
| Property acquired in settlement of debts* | **114,498** | 218,722 |
| Prepayments | **93,349** | 109,906 |
| Acceptances** | **5,831,534** | 3,499,817 |
| Positive fair value of derivatives (Note 41) | **863,918** | 879,233 |
| Insurance related receivables | **1,728,520** | 1,351,272 |
| Credit card interchange receivables | **94,405** | 84,718 |
| Taxes paid in advance | **60,309** | 74,007 |
| Other | **528,254** | 526,593 |
| | **9,552,316** | 6,928,970 |

* As of 31 December 2016, property acquired in settlement of debts includes land with a net carrying amount of AED 113 million (2015: AED 215 million). The land is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

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

## 11 Goodwill

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

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (2015: 32.61%).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 12 Investment properties

| | **2016** **AED'000** | 2015 AED'000 |
|---|---|---|
| ***At fair value*** | | |
| At 1 January | **527,525** | 490,317 |
| Purchases during the year | **-** | 3,012 |
| Change in fair value during the year (Note 30) | **(2,161)** | 34,196 |
| Disposals during the year | **(4,500)** | - |
| At 31 December | **520,864** | 527,525 |

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

The fair value of investment properties as at 31 December 2016 has been arrived at on the basis of a valuation carried out by independent professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

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

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

## 13 Property and equipment

| | Properties for own use AED'000 | Furniture, fixtures, equipment & vehicles AED'000 | Improvements to freehold properties and other AED'000 | Ca wor pro AE |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2015 | 1,048,743 | 480,645 | 440,084 | 3 |
| Additions during the year | 30,889 | 93,804 | 93,992 | 1 |
| Transfers | - | 6,782 | - | ( |
| Disposals/write-offs | (723) | (80,684) | (49,642) | |
| At 31 December 2015 | 1,078,909 | 500,547 | 484,434 | 4 |
| Additions during the year | **5,336** | **39,981** | **77,415** | **1** |
| Reversal of impairment | **35,171** | **-** | **-** | |
| Transfers | **-** | **18,936** | **-** | **(1** |
| Disposals/write-offs | **(10,660)** | **(56,691)** | **(54,538)** | |
| **At 31 December 2016** | **1,108,756** | **502,773** | **507,311** | **3** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2015 | 378,441 | 322,076 | 200,624 | |
| Charge for the year (Note 31) | 18,615 | 62,232 | 67,790 | |
| Eliminated on disposals/write-offs | (240) | (73,261) | (34,316) | |
| At 31 December 2015 | 396,816 | 311,047 | 234,098 | |
| Charge for the year (Note 31) | **19,854** | **63,154** | **72,603** | |
| Eliminated on disposals/write-offs | **(2,645)** | **(54,713)** | **(49,176)** | |
| **At 31 December 2016** | **414,025** | **319,488** | **257,525** | |
| **Carrying amount** | | | | |
| **At 31 December 2016** | **694,731** | **183,285** | **249,786** | **3** |
| At 31 December 2015 | 682,093 | 189,500 | 250,336 | 4 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 14 Deposits and balances due to banks

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Time | **5,743,217** | 4,086,745 |
| Demand | **1,538,551** | 2,262,741 |
| Overnight | **1,650,308** | 2,882,427 |
| | **8,932,076** | 9,231,913 |

(b) The above represent borrowings from:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Banks within the U.A.E. | **1,734,671** | 2,848,821 |
| Banks outside the U.A.E. | **7,197,405** | 6,383,092 |
| | **8,932,076** | 9,231,913 |

## 15 Repurchase agreements with banks

| **Repricing** | **Maturity date** | **Interest rate** | **2016 AED'000** | 2015 AED'000 |
|---|---|---|---|---|
| 6 months | May 2016 | 0.94% per annum | - | 734,564 |
| 1 month | January 2017 | 1.43% per annum | **35,028** | - |
| 3 months | March 2017 | 1.43% per annum | **468,400** | - |
| 3 months | March 2017 | 1.53% per annum | **102,172** | - |
| | | | **605,600** | 734,564 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 16 Customers' deposits

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Current and other accounts | **41,053,475** | 38,839,043 |
| Saving accounts | **3,406,698** | 3,555,435 |
| Time deposits | **25,486,951** | 22,849,312 |
| | **69,947,124** | 65,243,790 |

(b) Analysis by industry sector:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Government and public sector | **4,915,852** | 4,959,337 |
| Commercial and business | **46,572,635** | 43,440,872 |
| Personal | **14,774,919** | 14,397,197 |
| Financial institutions | **3,553,712** | 2,024,684 |
| Other | **130,006** | 421,700 |
| | **69,947,124** | 65,243,790 |

## 17 Islamic customers' deposits

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Current and other accounts | **3,784,930** | 2,845,304 |
| Saving accounts | **124,373** | 172,525 |
| Time deposits | **3,184,080** | 5,373,661 |
| | **7,093,383** | 8,391,490 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Government and public sector | **833,475** | 2,587,933 |
| Commercial and business | **3,177,647** | 2,987,231 |
| Personal | **626,409** | 696,499 |
| Financial institutions | **2,455,852** | 2,119,827 |
| | **7,093,383** | 8,391,490 |

## 18 Insurance and life assurance funds

| | **Outstanding claims AED'000** | **Unearned premium reserve AED'000** | **Additional reserve AED'000** | **Life assurance fund AED'000** | **Insurance related other fund AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| At 1 January 2015 | 427,365 | 607,983 | 73,512 | 546,279 | - | 1,655,139 |
| Increase/(decrease) | (29,772) | (118,486) | 75,570 | (22,747) | - | (95,435) |
| At 31 December 2015 | 397,593 | 489,497 | 149,082 | 523,532 | - | 1,559,704 |
| **Increase/(decrease)** | **(21,528)** | **30,075** | **(34,153)** | **(32,843)** | **9,503** | **(48,946)** |
| **At 31 December 2016** | **376,065** | **519,572** | **114,929** | **490,689** | **9,503** | **1,510,758** |

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 19 Other liabilities

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Interest payable | **320,903** | 231,871 |
| Negative fair value of derivatives (Note 41) | **872,229** | 872,607 |
| Acceptances* | **5,831,534** | 3,499,817 |
| Insurance premium collected in advance | **928,873** | 540,781 |
| Accrued expenses | **536,747** | 598,805 |
| Income received in advance | **190,342** | 200,935 |
| Pay orders issued | **374,654** | 295,519 |
| Provision for employees' end of service indemnity** | **189,946** | 193,997 |
| Provision for taxation | **87,935** | 87,326 |
| Other | **933,927** | 882,478 |
| | **10,267,090** | 7,404,136 |

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

** Provision for employees' end of service indemnity included AED 176 million (2015: AED 181 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

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

## 20 Medium-term loans

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Medium term notes | **3,135,360** | 2,269,356 |
| Syndicated Loan | **1,836,500** | 1,836,500 |
| | **4,971,860** | 4,105,856 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**20 Medium-term loans** (continued)

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

| Due date | Interest rate | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| 24 February 2016 | 3 months Libor + 1.450% | - | 110,190 |
| 16 May 2016 | 3 months Euribor + 1.250% | - | 41,369 |
| 23 June 2016 | 1.370% | - | 183,650 |
| 25 June 2016 | 2.060% | - | 36,730 |
| 30 June 2016 | 3 months Libor +0.780% | - | 36,730 |
| 7 July 2016 | 3 months Libor + 1.300% | - | 93,294 |
| 9 July 2016 | 1.300% | - | 36,730 |
| 28 July 2016 | 0.270% | - | 47,115 |
| 4 August 2016 | 3 months Libor +0.800% | - | 73,460 |
| 5 August 2016 | 3 months Libor + 0.850% | - | 95,787 |
| 18 August 2016 | 0.280% | - | 43,974 |
| 11 October 2016 | 0.250% | - | 94,230 |
| 19 December 2016 | 0.380% | - | 31,410 |
| 18 January 2017 | 3 months Libor + 1.000% | **91,825** | 91,825 |
| 24 January 2017 | 3 months Libor +1.125% | **1,020,726** | 1,020,726 |
| 6 February 2017 | 2.750% | **121,075** | 121,945 |
| 30 March 2017 | 1.880% | **98,069** | - |
| 30 March 2017 | 0.220% | **64,760** | - |
| 27 April 2017 | 0.220% | **38,856** | - |
| 3 May 2017 | 0.400% | **39,829** | - |
| 11 May 2017 | 1.830% | **37,832** | - |
| 6 June 2017 | 3 months Libor + 1.750% | **55,096** | 55,096 |
| 1 August 2017 | 2.000% | **312,205** | - |
| 4 August 2017 | 3 months Libor + 1.050% | **73,460** | - |
| 16 August 2017 | 0.000% | **111,412** | - |
| 24 August 2017 | 2.000% | **183,650** | - |
| 19 September 2017 | 0.100% | **32,380** | - |
| 12 October 2017 | 0.150% | **97,140** | - |
| 20 November 2017 | 2.100% | **194,669** | - |
| 29 November 2017 | 0.200% | **99,574** | - |
| 30 November 2017 | 2.150% | **130,024** | - |
| 7 December 2017 | 2.220% | **40,403** | - |
| 11 December 2017 | 0.250% | **32,380** | - |
| 23 April 2018 | 3 months Libor +1.050% | **55,095** | 55,095 |
| 7 September 2018 | 4.100% | **135,790** | - |
| 21 October 2019 | 3 months Libor+1.400% | **36,730** | - |
| 19 December 2019 | 0.500% | **32,380** | - |
| | | **3,135,360** | 2,269,356 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 20 Medium-term loans (continued)

Medium term notes are denominated in following currencies:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| U.S. Dollars | **2,329,784** | 1,793,526 |
| Swiss Francs | **111,412** | 95,787 |
| Kuwaiti Dinar | **121,075** | 121,945 |
| Euro | **139,403** | 41,369 |
| Japanese Yen | **297,896** | 216,729 |
| Chinese Yuan | **135,790** | - |
| | **3,135,360** | 2,269,356 |

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

During the year, new medium-term notes of AED 1.792 billion were issued and AED 925 million of medium-term notes were redeemed.

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

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

## 21 Issued and paid up capital and reserves

### (a) Issued and paid up capital

As at 31 December 2016, 177,530,823 ordinary shares of AED 10 each (31 December 2015: 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 22 February 2015, the shareholders approved a stock dividend in respect of the year ended 31 December 2014 at 5% of the issued and paid up capital, amounting to AED 84.53 million. Accordingly, the authorised and issued share capital increased by the amount of the stock dividend.

### (b) Statutory and legal reserves

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**21 Issued and paid up capital and reserves** (continued)

(c) **General reserve**

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

(d) **Cumulative translation adjustment**

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

(e) **Investments revaluation reserve**

Investments revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a profit of AED 12 million (2015: loss of AED 178 million) and was reflected in the consolidated statement of comprehensive income.

(f) **Cash flow hedging reserve**

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

The movement of the cash flow hedging reserve is below:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **9,221** | - |
| Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges | **53,333** | 10,791 |
| Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated income statement | **(54,930)** | (1,570) |
| **At 31 December** | **7,624** | 9,221 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 21 Issued and paid up capital and reserves (continued)

### (g) Dividends on equity instruments

During the year ended 31 December 2016, a 40% cash dividend amounting to AED 710 million for the year ended 31 December 2015 (2014: AED 676 million) was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting held on 28 February 2016.

## 22 Non-controlling interests

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **717,118** | 755,668 |
| Profit for the year | **27,499** | 32,538 |
| Other comprehensive (loss)/income for the year | **47** | (56,069) |
| Dividends paid | **(16,655)** | (18,129) |
| Additional contribution attributable to the new non-controlling interest shareholders* | **-** | 3,110 |
| At 31 December | **728,009** | 717,118 |

* Additional contribution was made during 2015 by the non-controlling interest shareholders of Dubai Group Sigorta A.Ş.

## 23 Contra accounts and commitments

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

| | | **2016 AED'000** | 2015 AED'000 |
|---|---|---|---|
| (i) | Contra accounts (memoranda) | | |
| | Guarantees | **38,285,010** | 40,720,747 |
| | Letters of credit | **4,743,855** | 5,912,089 |
| | | **43,028,865** | 46,632,836 |
| (ii) | Commitments for acquisition of property and equipment | **692,262** | 110,710 |
| (iii) | Operating lease commitments | **93,181** | 124,061 |
| **Total contra accounts and commitments** | | **43,814,308** | 46,867,607 |

(b) Irrevocable undrawn facilities commitments as at 31 December 2016 amounted to AED 7.9 billion (2015: AED 4.73 billion).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**23 Contra accounts and commitments** (continued)

(c) Contra accounts – maturity profile

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

**2016**

| | **Within 3 months AED'000** | **Over 3 to 6 months AED'000** | **Over 6 to 12 months AED'000** | **Over 1 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| **Guarantees** | **13,567,567** | **2,068,757** | **2,854,051** | **7,437,463** | **12,357,172** | **38,285,010** |
| **Letters of credit** | **3,359,779** | **492,225** | **332,929** | **558,922** | **-** | **4,743,855** |
| **Total** | **16,927,346** | **2,560,982** | **3,186,980** | **7,996,385** | **12,357,172** | **43,028,865** |

2015

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

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

(d) Operating lease commitments

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Less than 1 year | **37,121** | 40,522 |
| 1 to 5 years | **46,077** | 53,737 |
| Over 5 years | **9,983** | 29,802 |
| Total | **93,181** | 124,061 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 24 Interest income

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Loans and advances | **3,392,622** | 3,318,455 |
| Banks | **520,761** | 379,512 |
| Other financial assets | **411,008** | 258,663 |
| Central banks | **141,688** | 145,316 |
| | **4,466,079** | 4,101,946 |

## 25 Income from Islamic financing and investment products

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Financing | | |
| Murabaha | **177,935** | 160,940 |
| Ijara | **112,108** | 57,676 |
| Other | **9,466** | 3,032 |
| | **299,509** | 221,648 |
| Investment | | |
| Mudaraba | **10,518** | 5,220 |
| Wakala | **37,528** | 31,425 |
| | **48,046** | 36,645 |
| Total | **347,555** | 258,293 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 26 Interest expense

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Customers' deposits | **861,470** | 608,318 |
| Deposits and balances due to other banks | **397,935** | 363,769 |
| Medium-term loans | **86,125** | 61,105 |
| | **1,345,530** | 1,033,192 |

## 27 Distribution to depositors – Islamic products

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

## 28 Net fee and commission income

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| **Fee and commission income** | | |
| Commission income | **538,202** | 628,602 |
| Insurance commission | **320,466** | 309,004 |
| Fees and charges on banking services | **688,844** | 656,842 |
| Credit card related fees | **1,272,004** | 1,212,096 |
| Other | **229,626** | 218,043 |
| **Total fee and commission income** | **3,049,142** | 3,024,587 |
| **Fee and commission expenses** | | |
| Commission expense | **(35,074)** | (96,735) |
| Insurance commission | **(348,852)** | (330,053) |
| Credit card related expenses | **(898,576)** | (802,923) |
| Other | **(81,967)** | (70,468) |
| **Total fee and commission expenses** | **(1,364,469)** | (1,300,179) |
| **Net fee and commission income** | **1,684,673** | 1,724,408 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 29 Net investment income

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Net realised gain from sale of other financial assets measured at FVTPL | **24,029** | 33,305 |
| Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)] | **6,310** | (41,291) |
| Interest income from debt securities at FVTPL | **204,709** | 160,330 |
| Dividends income from other financial assets measured at FVTPL | **1,081** | 1,019 |
| Net realised loss from sale of other financial assets measured at amortised cost | **(490)** | (10,345) |
| Dividend income from financial assets measured at FVTOCI [Note 7 (j)] | **26,878** | 26,088 |
| | **262,517** | 169,106 |

## 30 Other income, net

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Fair value adjustments of investment properties (Note 12) | **(2,161)** | 34,196 |
| Foreign exchange gains, net | **423,478** | 413,100 |
| Insurance and other related income, net [Note 30(a)] | **393,352** | 334,048 |
| Gain/(loss) on disposal of property and equipment | **53,837** | (4,959) |
| Loss from disposal of investment properties | **(250)** | - |
| Fair value adjustment – derivatives | **6,954** | 7,070 |
| Other | **(16,142)** | 38,747 |
| | **859,068** | 822,202 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 30 Other income, net (continued)

### (a) Insurance and other related income, net

| | **2016** **AED'000** | 2015 AED'000 |
|---|---|---|
| Net insurance premium revenue | **1,342,328** | 1,399,184 |
| Net claims incurred | **(1,249,606)** | (1,115,567) |
| Other insurance related income, net | **300,630** | 50,431 |
| | **393,352** | 334,048 |

## 31 General and administrative expenses

| | **2016** **AED'000** | 2015 AED'000 |
|---|---|---|
| Salaries and employees related expenses | **1,365,105** | 1,405,758 |
| Depreciation on property and equipment (Note 13) | **155,611** | 148,637 |
| Social contributions | **-** | 1,238 |
| Other | **885,985** | 916,894 |
| | **2,406,701** | 2,472,527 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 32 Allowances for impairment, net

**2016**

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

2015

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 33 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year. In accordance with IAS 33 *Earnings Per Share*, the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented as follows:

| | **2016 AED** | 2015 AED |
|---|---|---|
| Profit for the year (AED'000) (Attributed to owners of the Parent) | **1,926,412** | 2,402,107 |
| Number of ordinary shares outstanding [Note 21 (a)] | **177,530,823** | 177,530,823 |
| Basic and diluted earnings per share (AED) | **10.85** | 13.53 |

## 34 Proposed dividends

As of the date of approving the consolidated financial statements, the Board of Directors' proposed dividends has been submitted to the Central Bank of the U.A.E. for its approval.

## 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:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| Cash on hand | **1,049,505** | 845,591 |
| Balances with central banks: | | |
| Current accounts and other balances | **6,774,795** | 8,203,244 |
| Deposits and balances due from banks maturing within 3 months | **12,489,137** | 10,828,896 |
| | **20,313,437** | 19,877,731 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 36 Investment in subsidiaries

(a) At 31 December 2016, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct material subsidiaries:

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**36 Investment in subsidiaries** (continued)

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

| Name of Subsidiary | Profit allocated to non-controlling interest | | Accumulated non-controlling interest | |
|---|---|---|---|---|
| | **2016 AED '000** | 2015 AED '000 | **2016 AED '000** | 2015 AED '000 |
| Oman Insurance Company (PSC) Group | **25,770** | 31,355 | **682,225** | 699,630 |
| Individually immaterial subsidiaries with non-controlling interests | **1,729** | 1,183 | **45,784** | 17,488 |
| | **27,499** | 32,538 | **728,009** | 717,118 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| ***Statement of financial position*** | | |
| **Total assets** | **7,194,384** | 5,947,870 |
| **Total liabilities** | **5,235,972** | 4,031,726 |
| **Net equity** | **1,958,412** | 1,916,144 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**36 Investment in subsidiaries** (continued)

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| ***Statement of comprehensive income*** | | |
| Net insurance premium revenue | **1,342,328** | 1,399,184 |
| Net claims incurred | **(1,249,606)** | (1,115,567) |
| Net commission and other income/(loss) | **15,504** | 29,415 |
| Net investment income | **73,290** | 89,274 |
| Net expenses | **(101,302)** | (319,823) |
| Profit for the year | **80,214** | 82,483 |
| Other comprehensive (loss)/income | **9,517** | (126,994) |
| **Total comprehensive (loss)/income** | **89,731** | (44,511) |
| ***Statement of cash flows*** | | |
| Net cash (used in)/generated from operating activities | **(49,144)** | 8,649 |
| Net cash used in investing activities | **(52,588)** | (227,526) |
| Net cash flows used in financing activities | **288,056** | (9,588) |
| **Net decrease in cash and cash equivalents** | **186,324** | (228,465) |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 37 Related party transactions

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

(b) The Group is controlled by Al Ghurair Family who own 87.76% (2015: 87.73%) of the issued and paid up capital.

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

| | **2016 AED '000** | 2015 AED '000 |
|---|---|---|
| Loans and advances measured at amortised cost | **2,586,403** | 1,539,510 |
| Customer's deposits | **1,216,323** | 1,401,076 |
| Letters of credit and guarantee | **1,163,375** | 2,014,011 |

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

| | **2016 AED '000** | 2015 AED '000 |
|---|---|---|
| Interest income | **85,685** | 63,981 |
| Interest expense | **7,809** | 10,353 |
| Other income, net | **53,779** | 52,276 |

(e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 124 million (2015: AED 148 million).

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 38 Concentrations of assets, liabilities and off balance sheet items

### (a) Geographic regions

| | 2016 | | | |
|---|---|---|---|---|
| | **Assets AED'000** | **Liabilities AED'000** | **Off balance sheet items AED'000** | Assets AED'000 |
| U.A.E. | **74,224,411** | **59,783,528** | **27,866,024** | 68,815,128 |
| Other Middle East Countries | **21,313,748** | **21,619,112** | **8,127,424** | 20,893,680 |
| O.E.C.D. | **10,258,253** | **13,049,885** | **2,882,022** | 10,269,825 |
| Other | **17,017,124** | **8,875,366** | **4,153,395** | 15,178,548 |
| | **122,813,536** | **103,327,891** | **43,028,865** | 115,157,181 |

### (b) Industry Sector

| | 2016 | | | |
|---|---|---|---|---|
| | **Assets AED'000** | **Liabilities AED'000** | **Off balance sheet items AED'000** | Assets AED'000 |
| Government and Public Sector | **16,159,314** | **5,938,556** | **532,353** | 15,435,113 |
| Commercial & Business | **38,385,617** | **55,813,577** | **31,080,882** | 37,825,368 |
| Personal | **17,464,353** | **15,884,596** | **659,534** | 15,015,784 |
| Financial Institutions | **49,325,148** | **24,989,793** | **10,753,643** | 44,848,944 |
| Other | **1,479,104** | **701,369** | **2,453** | 2,031,972 |
| | **122,813,536** | **103,327,891** | **43,028,865** | 115,157,181 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 39 Segmental information

*Reportable segments*

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

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

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

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

3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset-Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

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

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

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

7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas income tax expenses.

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 39 Segmental information (continued)

*Reportable segments* (continued)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 |
| Net interest income and earnings from Islamic products | 846,995 | 1,094,443 | 39,058 | 696,323 | 305,836 |
| Other operating income, net | 472,450 | 589,504 | 524,848 | 767,173 | 15,641 |
| Total operating income | 1,319,445 | 1,683,947 | 563,906 | 1,463,496 | 321,477 |
| General and administrative expenses | | | | | |
| Allowances for impairment | | | | | |
| Profit before taxes | | | | | |
| Overseas income tax expense | | | | | |
| Profit for the year | | | | | |
| Attributed to: | | | | | |
| Owners of the Parent | | | | | |
| Non-controlling interests | | | | | |
| Segment Assets | 30,910,557 | 13,579,281 | 17,004,042 | 32,505,293 | 8,797,296 |
| Segment Liabilities | 29,624,000 | 24,153,152 | 7,467,659 | 23,155,000 | 8,450,303 |

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 39 Segmental information (continued)

*Reportable segments* (continued)

| | | | | 2015 | |
|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 |
| Net interest income and earnings from Islamic products | 876,311 | 1,202,319 | 69,458 | 631,421 | 193,036 |
| Other operating income, net | 447,411 | 635,477 | 483,192 | 669,321 | 114,534 |
| Total operating income | 1,323,722 | 1,837,796 | 552,650 | 1,300,742 | 307,570 |
| General and administrative expenses | | | | | |
| Allowances for impairment | | | | | |
| Profit before taxes | | | | | |
| Overseas income tax expense | | | | | |
| Profit for the year | | | | | |
| Attributed to: | | | | | |
| Owners of the Parent | | | | | |
| Non-controlling interests | | | | | |
| Segment Assets | 29,500,767 | 14,430,585 | 15,657,273 | 32,831,357 | 7,594,622 |
| Segment Liabilities | 26,799,217 | 23,041,000 | 9,009,000 | 21,281,772 | 8,459,961 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 39 Segmental information (continued)

*Geographical information*

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

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

| | **Operating income from external customers *** | | **Non-current assets **** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| U.A.E. | **5,018,642** | 4,968,974 | **1,654,537** | 1,653,031 |
| Other Middle East countries | **904,865** | 790,110 | **26,987** | 36,008 |
| O.E.C.D. | **192,806** | 167,524 | **3,625** | 2,476 |
| Other countries | **52,312** | 50,897 | **16,718** | 19,530 |
| | **6,168,625** | 5,977,505 | **1,701,867** | 1,711,045 |

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

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

*Revenue from major products and services*

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

*Information about major customers*

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2016 and 2015.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

| | FVTPL AED'000 | FVTOCI AED'000 | Amortised cost AED'000 | Total AED'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash and balances with central banks | - | - | 18,629,582 | 18,629,582 |
| Deposits and balances due from banks | - | - | 18,667,750 | 18,667,750 |
| Other financial assets measured at fair value | 1,650,520 | 768,679 | - | 2,419,199 |
| Loans and advances measured at amortised cost | - | - | 53,428,461 | 53,428,461 |
| Islamic financing and investment products measured at amortised cost | - | - | 7,565,063 | 7,565,063 |
| Other financial assets measured at amortised cost | - | - | 10,849,298 | 10,849,298 |
| Other assets | 863,918 | - | 8,420,242 | 9,284,160 |
| **Total** | 2,514,438 | 768,679 | 117,560,396 | 120,843,513 |
| **Financial liabilities:** | | | | |
| Deposits and balances due to banks | - | - | 8,932,076 | 8,932,076 |
| Repurchase agreements with banks | - | - | 605,600 | 605,600 |
| Customers' deposits | - | - | 69,947,124 | 69,947,124 |
| Islamic customers' deposits | - | - | 7,093,383 | 7,093,383 |
| Other liabilities | 872,229 | - | 7,997,765 | 8,869,994 |
| Medium-term loans | - | - | 4,971,860 | 4,971,860 |
| **Total** | 872,229 | - | 99,547,808 | 100,420,037 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**40 Classification of financial assets and liabilities** (continued)

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 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)

### Statement of Derivatives as at 31 December 2016

| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Notional a<br>Up to 3 months AED'000 | 3 – 6 months AED'000 |
|---|---|---|---|---|---|
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contract | 379,705 | 452,175 | 46,706,024 | 32,647,759 | 5,809,550 |
| Foreign exchange options (bought) | - | 35,128 | 2,180,458 | 776,227 | 240,737 |
| Foreign exchange options (sold) | 37,591 | - | 2,082,554 | 678,323 | 240,737 |
| Interest rate swaps | 389,820 | 383,051 | 25,663,298 | 528,393 | 487,000 |
| Credit default swaps | - | 225 | 20,000 | - | 20,000 |
| Equity options | - | - | - | - | - |
| Futures contracts purchased (Customer) | - | 990 | 119,422 | 111,069 | - |
| Futures contracts sold (Customer) | 660 | - | 122,862 | 122,862 | - |
| Futures contracts sold (Bank) | 990 | - | 119,422 | 111,069 | - |
| Futures contracts purchased (Bank) | - | 660 | 122,862 | 122,862 | - |
| | 808,766 | 872,229 | 77,136,902 | 35,098,564 | 6,798,024 |
| *Derivatives held as cash flow hedges:* | | | | | |
| Cross currency swaps | 55,152 | - | 270,735 | 270,735 | - |
| Total | 863,918 | 872,229 | 77,407,637 | 35,369,299 | 6,798,024 |

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements for the year ended 31 December 2016** (continued)

## 41 Derivatives (continued)

Statement of Derivatives as at 31 December 2015

| | | | | Notional a | |
|---|---|---|---|---|---|
| | 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 |
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contract | 246,524 | 251,518 | 52,793,334 | 42,433,000 | 5,440,883 |
| Foreign exchange options (bought) | - | 26,821 | 2,825,778 | 1,392,343 | 449,175 |
| Foreign exchange options (sold) | 28,804 | - | 2,416,564 | 1,894,483 | 86,427 |
| Interest rate swaps | 595,413 | 591,110 | 31,254,336 | 1,611,688 | 72,424 |
| Credit default swaps | 17 | - | 18,365 | - | 18,365 |
| Equity options | 3,499 | - | 20,234 | 20,234 | - |
| Futures contracts purchased (Customer) | - | 48 | 36,551 | 34,118 | 2,433 |
| Futures contracts sold (Customer) | - | 2,361 | 122,695 | 122,695 | - |
| Futures contracts sold (Bank) | 48 | - | 36,551 | 34,118 | 2,433 |
| Futures contracts purchased (Bank) | 2,361 | - | 122,695 | 122,695 | - |
| | 876,666 | 871,858 | 89,647,103 | 47,665,374 | 6,072,140 |
| *Derivatives held as cash flow hedges:* | | | | | |
| Cross currency swaps | 2,567 | 749 | 270,735 | - | - |
| Total | 879,233 | 872,607 | 89,917,838 | 47,665,374 | 6,072,140 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 42 Capital management

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

- To comply with the capital requirements set by the BCBS (Basel Committee) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business.

### Regulatory capital

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

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

As per Central Bank draft regulation for Basel – III, the capital requirement in year 2016 was 12.25% inclusive of Capital Conservation and Countercyclical buffers. This is expected to increase to 16% by year 2019.

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

- Tier 1 capital, which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly owned excluding non-controlling interest in insurance company, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of CRWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (up to a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI.
- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however the Regulator may allow use of excess capital (over regulatory limits) invested.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 42 Capital management (continued)

**Regulatory capital** (continued)

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA. As per Central Bank draft regulation for Basel – III, the Tier I Capital requirement was 10.25% of which CET1 is 8.75% in year 2016 inclusive of Capital Conservation and Countercyclical buffers. This is expected to increase to 14% for Tier 1 of which CET1 is 12.5% by year 2019.

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

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

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

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

The Group's regulatory capital positions as at 31 December 2016 and 2015 were as follows:

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 42 Capital management (continued)

**Regulatory capital** (continued)

| | | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| ***Tier 1 capital*** | | | |
| Issued and paid up capital | | **1,775,308** | 1,775,308 |
| Statutory and legal reserve | | **899,351** | 896,595 |
| General reserve | | **312,000** | 312,000 |
| Cumulative translation adjustment | | **(298,562)** | (60,610) |
| Goodwill | | **(15,365)** | (18,150) |
| Retained earnings | | **16,310,198** | 15,112,512 |
| Non-controlling interest | | **6,123** | 5,835 |
| Deduction from Tier 1 Capital | | **(24,288)** | (22,750) |
| Total | | **18,964,765** | 18,000,740 |
| ***Tier 2 capital*** | | | |
| Allowance for collective impairment | | **1,325,100** | 1,246,645 |
| Investments revaluation reserve | | **(248,283)** | (276,416) |
| Cash flow hegding reserve | | **7,624** | 9,221 |
| Qualifying subordinated liabilities* | | **17,012** | 221,157 |
| Deduction from Tier 2 Capital | | **(24,288)** | (22,750) |
| Total | | **1,077,165** | 1,177,857 |
| **Total capital base** | **(A)** | **20,041,930** | 19,178,597 |
| ***Risk-weighted assets*** | | | |
| Credit risk | | **106,007,825** | 99,731,614 |
| Market risk | | **2,498,202** | 4,424,390 |
| Operational risk | | **10,367,924** | 9,358,033 |
| **Total risk-weighted assets** | **(B)** | **118,873,951** | 113,514,037 |
| **Risk asset ratio** | **[(A)/(B) x 100]** | **16.86%** | 16.90% |

* Qualifying subordinated liabilities represents the following:

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Medium-term notes [Note 20] | **1,020,726** | 1,020,726 |
| Less: Cumulative amortisation | **(1,003,714)** | (799,569) |
| | **17,012** | 221,157 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 42 Capital management (continued)

### Capital allocation

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

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

## 43 Risk management

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

The Group has exposure to the following primary risks:

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

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

### *Risk Management Framework*

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

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

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

*Risk Analytics and Modelling:*

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

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

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

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

**Credit risk management**

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

**Credit risk management** (continued)

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

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

***Wholesale credit risk management***

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

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

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

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

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

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

***Retail credit risk management***

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**43 Risk management** (continued)

**Credit risk management** (continued)

***Retail credit risk management*** (continued)

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

***Credit review procedures***

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

***Loan classification***

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

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

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**43 Risk management** (continued)

**Credit risk management** (continued)

***Impaired loans and securities***

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

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

***Past due but not impaired loans and securities***

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

***Allowances for impairment***

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

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

***Write-off policy***

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

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

### 43 Risk management (continued)

**Credit risk management** (continued)

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

| | Due from banks | | Loans and advances | | Islamic in |
|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **201** |
| | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'00** |
| **Impaired** | | | | | |
| Non-Accrual Under Restructuring | - | - | **88,287** | 83,332 | **8,04** |
| Substandard | - | - | **351,858** | 231,154 | **9,34** |
| Doubtful | - | - | **868,222** | 989,691 | **31,38** |
| Loss | - | - | **895,269** | 648,219 | **22,27** |
| Gross amount | - | - | **2,203,636** | 1,952,396 | **71,05** |
| Interest/profit suspended | - | (122) | **(310,336)** | (229,533) | **(4,57** |
| Specific allowance for impairment | - | - | **(1,045,147)** | (774,884) | **(25,97** |
| | - | (122) | **848,153** | 947,979 | **40,50** |
| **Past due but not impaired** | | | | | |
| Past due by less than 90 days | - | - | **121,589** | 99,788 | |
| Past due beyond 90 days | - | - | **29,938** | - | |
| Past due retail loans beyond 30 days | - | - | **384,100** | 365,776 | **41,48** |
| | - | - | **535,627** | 465,564 | **41,48** |
| **Neither past due nor impaired** | | | | | |
| Gross amount | **18,667,750** | 15,010,112 | **53,909,731** | 53,903,279 | **7,507,77** |
| Other allowances | - | - | **(202,000)** | (202,000) | |
| Collective allowance for impairment | - | - | **(1,663,050)** | (1,559,752) | **(24,70** |
| | **18,667,750** | 15,010,112 | **52,044,681** | 52,141,527 | **7,483,07** |
| **Carrying amount** | **18,667,750** | 15,009,990 | **53,428,461** | 53,555,070 | **7,565,06** |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2016 and 2015 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

| | Loans and advances | | Islamic financing and investment products | |
|---|---|---|---|---|
| **Grades** | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 |
| Grade 1 – Low risk | **3,863,219** | 4,036,364 | **701,448** | 547,836 |
| Grade 2 – Satisfactory risk | **36,675,960** | 38,850,512 | **5,217,573** | 4,668,614 |
| Grade 3 – Fair Risk | **6,755,585** | 5,870,094 | **366,295** | 672,514 |
| Grade 4 – Watch List | **6,614,967** | 5,146,309 | **1,222,457** | 495,862 |
| | **53,909,731** | 53,903,279 | **7,507,773** | 6,384,826 |

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

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

| | Loans and advances and Islamic financing and investment products | | Due from banks | |
|---|---|---|---|---|
| | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 |
| **Against individually impaired loans and advances:** | | | | |
| Property | **197,342** | 142,859 | - | - |
| Equities | **238,404** | 477,942 | - | - |
| Cash | **99,878** | 2,848 | - | - |
| **Against loans and advances not impaired:** | | | | |
| Property | **10,323,793** | 10,581,068 | - | - |
| Equities | **1,121,515** | 1,234,669 | - | - |
| Cash | **916,205** | 619,112 | **109,069** | 192,953 |
| Others | **4,870,659** | 4,128,877 | - | - |
| Total | **17,767,796** | 17,187,375 | **109,069** | 192,953 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

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

| | U.A.E. AED'000 | Middle East countries AED'000 | O.E.C.D. AED'000 | Total AED'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Impaired loans and advances** | **1,294,707** | **908,762** | **167** | **2,203,636** |
| **Impairment allowance for credit losses inclusive of interest in suspense** | **(777,925)** | **(577,354)** | **(203)** | **(1,355,482)** |
| | **516,782** | **331,408** | **(36)** | **848,154** |
| 2015 | | | | |
| Impaired loans and advances | 906,280 | 1,045,916 | 200 | 1,952,396 |
| Impairment allowance for credit losses inclusive of interest in suspense | (499,469) | (504,712) | (236) | (1,004,417) |
| | 406,811 | 541,204 | (36) | 947,979 |

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

| | U.A.E. AED'000 | Middle East countries AED'000 | O.E.C.D. AED'000 | Total AED'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Impaired Islamic financing and investment products** | **71,054** | **-** | **-** | **71,054** |
| **Impairment allowance for credit losses inclusive of profit in suspense** | **(30,505)** | **-** | **-** | **(30,505)** |
| | **40,549** | **-** | **-** | **40,549** |
| 2015 | | | | |
| Impaired Islamic financing and investment products | 48,755 | 13,017 | - | 61,772 |
| Impairment allowance for credit losses inclusive of profit in suspense | (23,931) | - | - | (23,931) |
| | 24,824 | 13,017 | - | 37,841 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

### Operational risk management

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

### Governance

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

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

### 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

### Market risk management

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

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

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

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

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

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

During the year ended 31 December 2016, VaR was calculated regularly and as of 31 December 2016 the 99% one day VaR was USD 1.145 million (2015: USD 0.769 million).

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 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 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 2016 would have been an decrease in profit by 5.37% (in case of decrease of interest rate) and would have been an increase in profit by 5.51% (in case of increase of interest rate) [2015: -3.86% and +4.35%] respectively.

During the year ended 31 December 2016, the effective interest rate on due from banks and certificates of deposits with central banks was 1.56% (2015: 1.36%), on loans and advances measured at amortised cost 5.52% (2015: 5.40%), on customers' deposits 1.10% (2015: 0.87%) and on due to banks (including repurchase agreements) 0.83% (2015: 0.61%).

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

## 43 Risk management (continued)

### Market risk management (continued)

*Interest rate risk management* (continued)

**Interest rate repricing analysis:**

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Ov y AED' |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 6,918,133 | 1,200,000 | 1,000,000 | - | |
| Deposits and balances due from banks | 10,595,789 | 4,031,887 | 783,781 | 241,652 | |
| Other financial assets measured at fair value | 394,776 | 373,696 | 344,910 | - | |
| Loans and advances measured at amortised cost | 40,802,830 | 4,053,755 | 1,622,752 | 4,432,714 | 2,016, |
| Islamic financing and investment products measured at amortised cost | 5,766,871 | 110,857 | 81,492 | 679,997 | 875, |
| Other financial assets measured at amortised cost | 5,723,391 | 3,458,384 | 366,415 | 919,317 | 381, |
| Other assets | - | - | - | - | |
| Goodwill | - | - | - | - | |
| Investment properties | - | - | - | - | |
| Property and equipment | - | - | - | - | |
| Total assets | 70,201,790 | 13,228,579 | 4,199,350 | 6,273,680 | 3,273, |

## 43 Risk management (continued)

### Market risk management (continued)

*Interest rate risk management* (continued)

**Interest rate repricing analysis** (continued)

| 2016 | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Over 5 years AED'00 |
|---|---|---|---|---|---|
| **Liabilities and equity** | | | | | |
| Deposits and balances due to banks | 5,337,734 | 389,844 | 303,034 | - | |
| Repurchase agreements with banks | 605,600 | - | - | - | |
| Customers' deposits | 18,487,369 | 8,075,316 | 5,494,292 | 2,484,100 | 724,33 |
| Islamic customers' deposits | 2,914,884 | 392,031 | 675,219 | 520,868 | 21,44 |
| Insurance and life assurance funds | - | - | - | - | |
| Other liabilities | - | - | - | - | |
| Medium-term loans | 1,396,456 | 171,612 | 3,032,385 | 259,995 | |
| Equity attributable to shareholders of the Parent | - | - | - | - | |
| Non-controlling interest | - | - | - | - | |
| Total liabilities and equity | 28,742,043 | 9,028,803 | 9,504,930 | 3,264,963 | 745,77 |
| On Balance Sheet gap | 41,459,747 | 4,199,776 | (5,305,580) | 3,008,717 | 2,527,94 |
| Off Balance Sheet gap | (231,044) | 225,034 | (6,717) | (1,240) | 13,96 |
| Cumulative interest rate sensitivity gap | 41,228,703 | 45,653,513 | 40,341,216 | 43,348,693 | 45,890,60 |

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements for the year ended 31 December 2016** (continued)

### 43 Risk management (continued)

**Market risk management** (continued)

***Interest rate risk management*** (continued)

Interest rate repricing analysis:

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Ov y AED' |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Assets | | | | | |
| Cash and balances with central banks | 9,067,710 | 1,300,000 | 740,150 | - | |
| Deposits and balances due from banks | 8,947,999 | 2,724,705 | 1,140,866 | 110,455 | 50, |
| Other financial assets measured at fair value | 520,704 | 542,360 | 1,128,184 | 58,713 | 165, |
| Loans and advances measured at amortised cost | 36,593,694 | 6,733,692 | 1,597,553 | 6,337,619 | 2,048, |
| Islamic financing and investment products measured at amortised cost | 4,433,943 | 339,820 | 616,033 | 798,420 | 355, |
| Other financial assets measured at amortised cost | 4,026,899 | 2,578,099 | 347,064 | 824,152 | 179, |
| Other assets | - | - | - | - | |
| Goodwill | - | - | - | - | |
| Investment properties | - | - | - | - | |
| Property and equipment | - | - | - | - | |
| Total assets | 63,590,949 | 14,218,676 | 5,569,850 | 8,129,359 | 2,798, |

## 43 Risk management (continued)

### Market risk management (continued)

***Interest rate risk management*** (continued)

Interest rate repricing analysis (continued)

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43 Risk management (continued)

**Market risk management** (continued)

***Currency risk management***

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

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Net spot Position AED'000** | **Forward position AED'000** | **Total AED'000** | Net spot position AED'000 | Forward position AED'000 | Total AED'000 |
| U.S. Dollars | **9,717,274** | **(7,849,642)** | **1,867,632** | 12,182,344 | (6,004,068) | 6,178,276 |
| Qatari Riyals | **1,387,794** | **769,123** | **2,156,917** | 1,884,106 | 368,803 | 2,252,909 |
| Pound Sterling | **(702,160)** | **706,186** | **4,026** | (377,285) | 397,348 | 20,063 |
| Euro | **(3,122,223)** | **3,323,364** | **201,141** | (3,076,294) | 3,179,645 | 103,351 |
| Bahrain Dinar | **153,179** | **(30,119)** | **123,060** | 532,934 | (5,245) | 527,689 |
| Saudi Riyal | **(901,433)** | **960,864** | **59,431** | (735,517) | 841,538 | 106,021 |
| Japanese Yen | **(368,860)** | **420,037** | **51,177** | (244,606) | 210,342 | (34,264) |
| Swiss Francs | **(124,926)** | **128,107** | **3,181** | (93,424) | 92,691 | (733) |
| Kuwaiti Dinar | **67,936** | **(578)** | **67,358** | 91,587 | (58,612) | 32,975 |
| Chinese Yuan | **(230,315)** | **230,300** | **(15)** | 78,791 | (78,815) | (24) |
| Other | **(32,888)** | **81,951** | **49,063** | 395,864 | 191,643 | 587,507 |
| **Total** | **5,843,378** | **(1,260,407)** | **4,582,971** | 10,638,500 | (864,730) | 9,773,770 |

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

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

**Liquidity risk management**

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

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

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**43 Risk management** (continued)

**Liquidity risk management** (continued)

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

Mashreqbank's Head Office (HO) and International Banking Group (IBG) Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. 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 determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions of all foreign branches and for outlining these clearly in the bank's liquidity policies.

The 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 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, to date; this has outstanding balance of AED 3.14 billion (2015: AED 2.27 billion) [Note 20(a)] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014. The Bank raised a US$ 500 million syndicated loan through its key relationship Banks in July 2014.

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

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

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

## 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 arra
and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity da

**Maturity profile:**

The maturity profile of assets, liabilities and equity as at 31 December 2016 were as follows:

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Ov 5 AE |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | 16,425,159 | 1,204,423 | 1,000,000 | |
| Deposits and balances due from banks | 12,489,137 | 4,436,173 | 1,311,151 | 4 |
| Other financial assets measured at fair value | 1,102,170 | 137,778 | 344,910 | 2 |
| Loans and advances measured at amortised cost | 20,975,850 | 2,764,492 | 4,754,120 | 14,7 |
| Islamic financing and investment products measured at amortised cost | 4,807,405 | 157,060 | 100,765 | 1,3 |
| Other financial assets measured at amortised cost | 2,014,790 | 652,523 | 549,978 | 4,2 |
| Other assets | 3,125,001 | 2,861,642 | 2,800,294 | 1 |
| Goodwill | - | - | - | |
| Investment properties | - | - | - | |
| Property and equipment | - | - | - | |
| Total assets | 60,939,512 | 12,214,091 | 10,861,218 | 21,2 |

## 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 | O A |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Deposits and balances due to banks | 8,239,198 | 389,844 | 303,034 | |
| Repurchase agreements with banks | 605,600 | - | - | |
| Customers' deposits | 53,166,224 | 8,059,135 | 5,483,935 | 2, |
| Islamic customers' deposits | 5,483,825 | 392,031 | 675,219 | |
| Insurance and life assurance funds | - | - | 1,020,068 | |
| Other liabilities | 3,945,364 | 2,408,180 | 3,024,911 | |
| Medium-term loans | 1,396,456 | 171,612 | 3,143,797 | |
| Equity attributable to shareholders of the Parent | - | - | - | |
| Non-controlling interest | - | - | - | |
| **Total liabilities and equity** | 72,836,667 | 11,420,802 | 13,650,964 | 4, |

## 43 Risk management (continued)

### Liquidity risk management (continued)

**Maturity profile:** (continued)

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

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Ov AE |
|---|---|---|---|---|
| Assets | | | | |
| Cash and balances with central banks | 17,383,313 | 1,300,000 | 740,150 | |
| Deposits and balances due from banks | 10,828,896 | 2,452,057 | 1,436,148 | 2 |
| Other financial assets measured at fair value | 1,305,403 | 547,264 | 1,134,688 | 2 |
| Loans and advances measured at amortised cost | 19,273,866 | 4,766,025 | 3,704,998 | 16,3 |
| Islamic financing and investment products measured at amortised cost | 2,783,732 | 583,423 | 575,342 | 2,1 |
| Other financial assets measured at amortised cost | 498,459 | 238,192 | 704,942 | 3,5 |
| Other assets | 2,817,479 | 2,050,944 | 1,099,923 | 4 |
| Goodwill | - | - | - | |
| Investment properties | - | - | - | |
| Property and equipment | - | - | - | |
| Total assets | 54,891,148 | 11,937,905 | 9,396,191 | 23,0 |

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (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 5 yea AED'0 |
|---|---|---|---|---|
| Liabilities and equity | | | | |
| Deposits and balances due to banks | 6,457,209 | 319,613 | 250,006 | 2,205,0 |
| Repurchase agreements with banks | - | 734,564 | - | |
| Customers' deposits | 50,032,423 | 6,969,927 | 4,400,894 | 3,091,1 |
| Islamic customers' deposits | 6,726,415 | 788,658 | 481,618 | 369,8 |
| Insurance and life assurance funds | - | - | 1,036,170 | 523,5 |
| Other liabilities | 3,635,225 | 1,785,953 | 1,140,756 | 557,6 |
| Medium-term loans | 110,190 | 298,479 | 516,000 | 3,181,1 |
| Equity attributable to shareholders of the Parent | - | - | - | |
| Non-controlling interest | - | - | - | |
| Total liabilities and equity | 66,961,462 | 10,897,194 | 7,825,444 | 9,928,5 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 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 2015.

*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)

| Financial assets | Fair value as at 31-Dec-16 AED'000 | Fair value as at 31-Dec-15 AED'000 | Fair value hierarchy | Valuation techniques and key inputs |
|---|---|---|---|---|
| **Financial assets measured at FVTPL** | | | | |
| Quoted equity investments | - | 16,548 | Level 1 | Quoted bid prices in an active market |
| Quoted debt investments | **369,195** | 188,924 | Level 1 | Quoted bid prices in an active market |
| Unquoted debt investments | **680,364** | 2,404,569 | Level 2 | Based on the recent similar transaction in market |
| Unquoted debt investments | **63,837** | 67,518 | Level 3 | Based on discounted cashflow model |
| Mutual and other funds | **274,558** | 327,807 | Level 3 | Net assets values of the funds |
| Unquoted equity investments | **215** | 508 | 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. |
| Mutual and other funds | **262,351** | 261,936 | Level 1 | Quoted bid prices in an active market |
| | **1,650,520** | 3,267,810 | | |

**43. Risk management** (continued)

**Fair value measurements** (continued)

| **Financial assets** | **Fair value as at** | | **Fair value hierarchy** | **Valuation techniques and key inputs** |
|---|---|---|---|---|
| | **31-Dec-16 AED'000** | 31-Dec-15 AED'000 | | |
| **Financial assets measured at FVTOCI** | | | | |
| Quoted equity investments | **384,214** | 402,783 | Level 1 | Quoted bid prices in an active market |
| Unquoted equity investments | **348,294** | 216,650 | 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. |
| Mutual and Other funds | **36,171** | 37,722 | Level 1 | Quoted bid prices in an active market |
| | **768,679** | 657,155 | | |
| | **2,419,199** | 3,924,965 | | |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**43. Risk management** (continued)

**Fair value measurements** (continued)

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

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

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **395,834** | 393,977 |
| Purchases | **97,250** | 134,367 |
| Disposals/matured | **(158,298)** | (199,308) |
| Transfer in | **-** | 85,178 |
| Change in fair value | **3,824** | (18,380) |
| **At 31 December** | **338,610** | 395,834 |

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

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| At 1 January | **216,650** | 214,647 |
| Purchases | **106,165** | 37,350 |
| Disposals/matured | **(16,643)** | (21,397) |
| Change in fair value | **42,122** | (13,950) |
| **At 31 December** | **348,294** | 216,650 |

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

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

**43. Risk management** (continued)

**Fair value measurements** (continued)

Fair value of financial instruments measured at amortised cost

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

| | Carrying | Fair value | | | |
|---|---|---|---|---|---|
| **2016** | **amount AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | **10,849,298** | **7,070,188** | **1,237,774** | **2,450,533** | **10,758,495** |
| 2015 | | | | | |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | 7,993,072 | 6,232,112 | - | 1,687,966 | 7,920,078 |

| | Carrying | Fair value | | | |
|---|---|---|---|---|---|
| **2016** | **Amount AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| *Financial liabilities* | | | | | |
| Medium-term notes | **3,135,360** | **1,786,183** | **-** | **1,340,883** | **3,127,066** |
| 2015 | | | | | |
| *Financial liabilities* | | | | | |
| Medium-term notes | 2,269,356 | 1,434,794 | - | 811,281 | 2,246,075 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2016** (continued)

## 43. Risk management (continued)

**Fair value measurements** (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2016 and 2015:

| | Reflected in consolidated statement of income | | Reflected in consolidated statement of comprehensive income | |
|---|---|---|---|---|
| | **Favourable change AED'000** | **Unfavourable change AED'000** | **Favourable change AED'000** | **Unfavourable change AED'000** |
| **2016** | | | | |
| **Other financial assets measured at fair value** | **165,052** | **(165,052)** | **76,868** | **(76,868)** |
| 2015 | | | | |
| Other financial assets measured at fair value | 326,781 | (326,781) | 65,715 | (65,715) |

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 income statement or consolidated statement of comprehensive income.

## 44 Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of 31 December 2016 of AED 1 million (2015: AED 1 million).

## 45 Fund management

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

## 46 Foreign restricted assets

Net assets equivalent to AED 98 million as at 31 December 2016 (2015: AED 91 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

## 47 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board of Directors and authorised for issue on 25 January 2017.

**MASHREQBANK PSC GROUP**

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

**MASHREQBANK PSC GROUP**

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

**Contents** **Pages**


| | |
|---|---|
| **Board of Directors' report** | **1** |
| **Independent auditor's report** | **2 & 3** |
| **Consolidated statement of financial position** | **4** |
| **Consolidated income statement** | **5** |
| **Consolidated statement of comprehensive income** | **6** |
| **Consolidated statement of changes in equity** | **7** |
| **Consolidated statement of cash flows** | **8 & 9** |
| **Notes to the consolidated financial statements** | **10 - 108** |

**Board of Directors' report**

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

**Incorporation and registered offices**

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

**Principal activities**

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

**Financial position and results**

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

**Dividend**

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

**Directors**

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

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

**Auditors**

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

By order of the Board of Directors

**Abdulla Bin Ahmad Al Ghurair**
**Chairman**
**27 January 2016**

Deloitte.

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# Independent auditor's report to the shareholders of Mashreqbank psc

## Report on the financial statements

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

### *Management's responsibility for the financial statements*

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

### *Auditor's responsibility*

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

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

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

Anis Sadek (521), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

Deloitte.

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

### Opinion

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

### Report on other legal and regulatory requirements

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

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

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

iii) The Group has maintained proper books of account;

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

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

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

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

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

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

**Deloitte & Touche (M.E.)**

**Anis Sadek**
**Registration Number 521**
**27 January 2016**

## Consolidated statement of financial position at 31 December 2015

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

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

**Abdulla Bin Ahmad Al Ghurair**
**Chairman**

**Abdul Aziz Abdulla Al Ghurair**
**Chief Executive Officer**

## Consolidated income statement for the year ended 31 December 2015

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

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

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

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

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

## MASHREQBANK PSC GROUP

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

| | Issued and paid up capital AED'000 | Statutory and legal reserves AED'000 | General reserve AED'000 | Cumulative translation adjustment AED'000 | Investments revaluation reserve AED'000 | Cash flow hedging reserve AED'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | 1,690,770 | 850,172 | 312,000 | (42,113) | (157,309) | - |
| Profit for the year | - | - | - | - | - | - |
| Other comprehensive income/(loss) for the year | - | - | - | (11,202) | 2,152 | - |
| Total comprehensive income/(loss) for the year | - | - | - | (11,202) | 2,152 | - |
| Transfer from investment revaluation reserve to retained earnings | - | - | - | - | 3,007 | - |
| Transfer to statutory and legal reserves | - | 2,410 | - | - | - | - |
| Payment of dividends [Note 21(g)] | - | - | - | - | - | - |
| Additional contribution attributable to the new non-controlling interest shareholders (Note 22) | - | - | - | - | - | - |
| Balance at 31 December 2014 | 1,690,770 | 852,582 | 312,000 | (53,315) | (152,150) | - |
| **Profit for the year** | - | - | - | - | | - |
| **Other comprehensive income/(loss) for the year** | - | - | - | **(7,295)** | **(121,997)** | **9,221** |
| **Total comprehensive income/(loss) for the year** | - | - | - | **(7,295)** | **(121,997)** | **9,221** |
| **Issue of bonus shares [Note 21(a)]** | **84,538** | - | - | - | - | - |
| **Transfer from investment revaluation reserve to retained earnings** | - | - | - | - | **(2,269)** | - |
| **Transfer to statutory and legal reserves** | - | **44,013** | - | - | - | - |
| **Payment of dividends [Note 21(g)]** | - | - | - | - | - | - |
| **Additional contribution attributable to the new non-controlling interest shareholders (Note 22)** | - | - | - | - | - | - |
| **Balance at 31 December 2015** | **1,775,308** | **896,595** | **312,000** | **(60,610)** | **(276,416)** | **9,221** |

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

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

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

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

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

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

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

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

### 1 General information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3 Summary of significant accounting policies

### 3.1 Statement of compliance

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

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

### 3.2 Basis of preparation

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

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

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

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

The principal accounting policies are set out below:

### 3.3 Basis of consolidation

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.3 Basis of consolidation (continued)

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

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

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

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

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

*Changes in the Group's ownership interest in existing subsidiaries*

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

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

## 3 Summary of significant accounting policies (continued)

### 3.4 Business combinations

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

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

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

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.4 Business combinations (continued)

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

### 3.5 Goodwill

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

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

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

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

### 3.6 Revenue recognition

*Interest income and expense*

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.6 Revenue recognition (continued)

*Interest income and expense* (continued)

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

*Income from Islamic financing and investments products*

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

*Fee and commission income and expenses*

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

*Dividend revenue*

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

*Insurance contracts revenue and insurance commission income*

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

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

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

*Gain or loss from redemption of medium-term loans*

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

*Rental income*

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

*Rendering of services*

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

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

## 3 Summary of significant accounting policies (continued)

### 3.7 Leasing

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

*The Group as lessor*

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

*The Group as lessee*

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

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

### 3.8 Foreign currencies

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

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.8 Foreign currencies (continued)

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

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

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

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

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

### 3.9 Borrowing costs

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

### 3.10 Property and equipment

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.10 Property and equipment (continued)

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

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

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

### 3.11 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the period in which they arise.

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

### 3.12 Impairment of tangible assets

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.13 Provisions

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

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

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

### 3.14 Financial instruments

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

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

#### 3.14.1 Financial assets

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

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

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'.

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

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

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

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

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

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

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

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

A financial asset is held for trading if:

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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

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

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

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

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

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

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

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

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

Foreign exchange gains and losses

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

*(i) Individually assessed loans*

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

***(ii) Collectively assessed loans***

Impairment losses of collectively assessed loans include the allowances on:

***(a) Performing commercial and other loans***

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

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

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

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

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

Derecognition of financial assets

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

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition of financial assets (continued)

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

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

3.14.2 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

***Financial liabilities subsequently measured at amortised cost***

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

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

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

***Financial guarantee contracts***

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

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

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

***De-recognition of financial liabilities***

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

***Financial liabilities at FVTPL***

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

A financial liability is classified as held for trading if:

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

***Financial liabilities at FVTPL*** (continued)

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

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

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

### 3.15 Offsetting of financial assets and liabilities

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

### 3.16 Derivative financial instruments

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

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

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

<u>Embedded derivatives</u>

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

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

## 3 Summary of significant accounting policies (continued)

### 3.17 Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.17 Hedge accounting (continued)

Hedges of net investments in foreign operations

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

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

### 3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.5 Reinsurance contracts

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

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

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

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

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for;

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

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

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(b) Additional reserve (continued)

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

(c) Life assurance fund

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

(d) Unit linked liabilities

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

(e) Outstanding claims

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

3.18.7 Policy acquisition costs

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.18 Insurance contracts (continued)

3.18.8 Salvage and subrogation reimbursements

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

3.18.9 Liability adequacy test

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

3.18.10 Receivables and payables related to insurance contracts

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

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

### 3.19 Taxation

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

### 3.20 Islamic financing and investment products

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

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

*(i) Definitions*

The following terms are used in Islamic financing:

***Murabaha***

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

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

## 3 Summary of significant accounting policies (continued)

### 3.20 Islamic financing and investment products (continued)

*(i) Definitions* (continued)

***Ijara***

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

***Musharaka***

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

***Mudaraba***

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

***Wakala***

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

*(ii) Accounting policy*

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

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

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

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

## 3 Summary of significant accounting policies (continued)

### 3.20 Islamic financing and investment products (continued)

*(iii) Revenue recognition policy*

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

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

***Murabaha***

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

***Ijara***

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

***Musharaka***

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

***Mudaraba***

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

***Wakala***

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

*(iv) Islamic customers' deposits and distributions to depositors*

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

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

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

## 4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

### 4.1 Impairment of financial assets measured at amortised cost

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

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

**Individually assessed loans and advances**

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

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

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

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

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

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

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

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

**Collectively assessed loans and advances**

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

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

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

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and less than 120 days, and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral.

### 4.2 Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

### 4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

### 4.4 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

## 4 Critical accounting judgements and key sources of estimation uncertainty (continued)

### 4.4 Derivative financial instruments (continued)

(a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

### 4.5 Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

### 4.6 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

### 4.7 Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

### 4.8 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks as at 31 December is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Cash on hand | **845,591** | 1,077,927 |
| Balances with central banks: | | |
| Current accounts and other balances | **8,203,244** | 5,381,371 |
| Statutory deposits | **6,674,628** | 5,799,960 |
| Certificates of deposit | **3,700,000** | 2,900,000 |
| | **19,423,463** | 15,159,258 |

(b) The geographical analysis of the cash and balances with central banks is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Balances within the U.A.E. | **10,876,322** | 9,437,628 |
| Balances outside the U.A.E. | **8,547,141** | 5,721,630 |
| | **19,423,463** | 15,159,258 |

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.40% (2014: 0.40%) per annum.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Demand | **2,011,629** | 1,182,486 |
| Overnight | **192,997** | 307,292 |
| Time | **12,805,486** | 12,745,922 |
| | **15,010,112** | 14,235,700 |
| Less: Allowance for impairment | **(122)** | (24,444) |
| | **15,009,990** | 14,211,256 |

(b) The above represent deposits and balances due from:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Banks within the U.A.E. | **1,451,658** | 1,030,341 |
| Banks outside the U.A.E. | **13,558,454** | 13,205,359 |
| | **15,010,112** | 14,235,700 |
| Less: Allowance for impairment | **(122)** | (24,444) |
| | **15,009,990** | 14,211,256 |

(c) Allowance for impairment movement

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **24,444** | 97,166 |
| Charged during the year (Note 32) | **261** | 5,655 |
| Interest in suspense | **1,790** | 574 |
| Recoveries during the year (Note 32) | **-** | (45,492) |
| Written off during the year | **(26,373)** | (33,459) |
| At 31 December | **122** | 24,444 |

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

## 7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Other financial assets measured at fair value** | | |
| (i) **Financial assets measured at fair value through profit and loss (FVTPL)** | | |
| *Debt securities* | | |
| Corporate bonds and treasury bills | **2,624,985** | 1,625,167 |
| Sukuk | **36,027** | 46,164 |
| | **2,661,012** | 1,671,331 |
| *Equities* | | |
| Quoted | **16,548** | 7,478 |
| Unquoted | **508** | 551 |
| | **17,056** | 8,029 |
| Mutual and other funds | **589,742** | 740,189 |
| | **3,267,810** | 2,419,549 |
| (ii) **Financial assets measured at fair value through other comprehensive income (FVTOCI)** | | |
| *Equities* | | |
| Quoted | **402,783** | 511,475 |
| Unquoted | **216,650** | 241,238 |
| | **619,433** | 752,713 |
| Mutual and other funds [Note 7(g)] | **37,722** | 37,072 |
| | **657,155** | 789,785 |
| **Total other financial assets measured at fair value (A)** | **3,924,965** | 3,209,334 |
| (iii) **Financial assets measured at amortised cost** | | |
| *Debt securities* | | |
| Bonds | **7,141,930** | 6,843,319 |
| Sukuk | **963,140** | 882,231 |
| Less: Allowance for impairment | **(111,998)** | (145,850) |
| **Total other financial assets measured at amortised cost (B)** | **7,993,072** | 7,579,700 |
| **Total other financial assets [(A) +(B)]** | **11,918,037** | 10,789,034 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**7 Other financial assets** (continued)

(b) The geographic analysis of other financial assets is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Balances within the U.A.E. | **3,338,488** | 2,835,784 |
| Balances outside the U.A.E. | **8,579,549** | 7,953,250 |
| | **11,918,037** | 10,789,034 |

(c) The analysis of other financial assets by industry sector is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Government and Public Sector | **5,323,051** | 4,287,546 |
| Commercial and Business | **750,371** | 384,030 |
| Financial Institutions | **5,039,235** | 5,650,640 |
| Other | **805,380** | 466,818 |
| | **11,918,037** | 10,789,034 |

(d) The movement of the allowance for impairment of financial assets measured at amortised cost during the year was as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **145,850** | 94,400 |
| Impairment allowance for the year (Note 32) | **-** | 51,450 |
| Reversal during the year (Note 32) | **(33,852)** | - |
| At 31 December | **111,998** | 145,850 |

(e) The fair value of other financial assets measured at amortised cost amounted to AED 7.92 billion as of 31 December 2015 (2014: AED 7.62 billion) (Note 43).

(f) The above other financial assets measured at amortised costs include debt securities aggregating to notional value of AED 750 million (fair value of AED 766 million) [2014: AED 408 million (fair value of AED 433 million)] which were collateralised against repurchase agreements with banks ("Repo") (Note 15).

(g) Other financial assets measured at FVTOCI include AED 38 million (2014: AED 37 million) investment in Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and the fair value of the fund is based on quoted market prices.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 7 Other financial assets (continued)

(h) Other financial assets measured at FVTPL include AED 245 million (2014: AED 322 million) which represents investments in Makaseb Income Fund, Mashreq Al Islami Income Fund and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity and coupon rate. The fair value of these investments is based on quoted market prices.

(i) As of 31 December 2015, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(j) During the year ended 31 December 2015, dividends received from financial assets measured at FVTOCI amounting to AED 26 million (2014: AED 36 million) were recognised as investment income in the consolidated income statement (Note 29).

(k) During the year ended 31 December 2015, change in fair value of other financial assets measured at FVTPL amounted to a loss of AED 41 million (2014: a profit of AED 33 million) and was recongnised as investment loss in the consolidated income statement (Note 29).

(l) During the year ended 31 December 2015, change in fair value of financial assets measured at FVTOCI amounted to a loss of AED 178 million (2014: a profit of AED 6 million) and was recognised in the consolidated statement of comprehensive income.

(m) During the year ended 31 December 2015, the Group purchased and disposed equity shares amounted to AED 206 million and AED 150 million respectively.

## 8 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

| | **2015**<br>**AED'000** | 2014<br>AED'000 |
|---|---|---|
| Loans | **48,201,075** | 47,483,184 |
| Overdrafts | **4,563,342** | 4,764,148 |
| Credit cards | **3,167,485** | 2,827,635 |
| Other | **389,337** | 308,240 |
| | **56,321,239** | 55,383,207 |
| Less: Allowance for impairment | **(2,766,169)** | (3,136,593) |
| | **53,555,070** | 52,246,614 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 8 Loans and advances measured at amortised cost (continued)

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Manufacturing | **3,207,415** | 4,161,144 |
| Construction | **3,849,313** | 3,386,984 |
| Trade | **11,102,269** | 11,992,623 |
| Transport and communication | **4,282,487** | 3,420,035 |
| Services | **4,820,698** | 6,782,290 |
| Financial institutions | **660,483** | 994,615 |
| Personal | **16,604,872** | 15,549,360 |
| Government and related enterprises | **11,502,917** | 8,984,812 |
| Other | **290,785** | 111,344 |
| | **56,321,239** | 55,383,207 |
| Less: Allowance for impairment | **(2,766,169)** | (3,136,593) |
| | **53,555,070** | 52,246,614 |

(c) As at 31 December 2015, AED Nil (2014: AED 1.12 billion) of the loans and advances were collateralised under repurchase agreements with banks ("Repo") (Note 15).

(d) In certain cases, the Group continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated income statement. The value of loans and advances on which interest is not taken to consolidated income statement, including fully provided accounts, amounted to AED 1.95 billion at 31 December 2015 (2014: AED 2.64 billion) (Note 43).

(e) The movement of the allowance for impairment and suspended interest of loans and advances measured at amortised cost during the year was as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **3,136,593** | 3,057,721 |
| Impairment allowance for the year (Note 32) | **789,214** | 842,635 |
| Interest suspended | **80,395** | 92,223 |
| Recoveries during the year (Note 32) | **(5,215)** | (63,491) |
| Written off during the year | **(1,234,818)** | (792,495) |
| At 31 December | **2,766,169** | 3,136,593 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 8 Loans and advances measured at amortised cost (continued)

(f) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

## 9 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| **Financing** | | |
| Murabaha | **3,907,356** | 3,599,799 |
| Ijara | **1,672,605** | 1,432,430 |
| | **5,579,961** | 5,032,229 |
| **Investment** | | |
| Mudaraba | **182,813** | 217,100 |
| Wakala | **1,112,519** | 831,539 |
| | **1,295,332** | 1,048,639 |
| **Total** | **6,875,293** | 6,080,868 |
| Less: Unearned income | **(216,056)** | (233,760) |
| Allowance for impairment | **(48,631)** | (48,014) |
| | **6,610,606** | 5,799,094 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**9 Islamic financing and investment products measured at amortised cost** (continued)

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Manufacturing | **603,036** | 644,672 |
| Construction | **1,263,384** | 1,206,620 |
| Trade | **1,229,460** | 1,189,001 |
| Transport and communication | **778,107** | 104,632 |
| Services | **840,012** | 1,060,913 |
| Financial institutions | **23,576** | 13,308 |
| Personal | **1,607,374** | 1,295,420 |
| Government and related enterprises | **530,344** | 566,302 |
| **Total** | **6,875,293** | 6,080,868 |
| Less: Unearned income | **(216,056)** | (233,760) |
| Allowance for impairment | **(48,631)** | (48,014) |
| | **6,610,606** | 5,799,094 |

(c) The value of Islamic financing and investment products on which profit is not taken to consolidated income statement, including fully provided accounts, amounted to AED 62 million as at 31 December 2015 (2014: AED 83 million) (Note 43).

(d) *Allowance for impairment movement*:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **48,014** | 39,192 |
| (Reversal of impairment)/impairment allowance during the year, net (Note 32) | **(382)** | 7,188 |
| Profit suspended | **999** | 1,634 |
| At 31 December | **48,631** | 48,014 |

(e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 10 Other assets

| | **2015** **AED'000** | 2014 AED'000 |
|---|---|---|
| Interest receivable | **184,702** | 137,827 |
| Property acquired in settlement of debts* | **218,722** | 230,366 |
| Prepayments | **109,906** | 79,940 |
| Acceptances** | **3,499,817** | 2,417,525 |
| Positive fair value of derivatives (Note 41) | **879,233** | 1,073,437 |
| Insurance related receivables | **1,351,272** | 1,269,546 |
| Credit card interchange receivables | **84,718** | 63,154 |
| Taxes paid in advance | **74,007** | 80,075 |
| Other | **526,593** | 660,127 |
| | **6,928,970** | 6,011,997 |

* As of 31 December 2015 property acquired in settlement of debts includes land with a carrying amount of AED 215 million (2014: AED 226 million) which is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

** Acceptances are recognised as a financial liability (Note 19) in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

## 11 Goodwill

During 2012, Oman Insurance Company P.S.C, a subsidiary of the Bank acquired a 51% interest in Dubai Group Sigorta A.Ş, a company established and registered in Istanbul, Turkey, which is engaged in the business of issuing short term and long term insurance contracts relating to general insurance. Dubai Group Sigorta A.Ş. was acquired by the Group with the objective of improving its overall geographical spread.

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (2014: 32.46%).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 12 Investment properties

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| ***At fair value*** | | |
| At 1 January | **490,317** | 472,959 |
| Purchases during the year | **3,012** | 6,415 |
| Change in fair value during the year (Note 30) | **34,196** | 82,406 |
| Disposals during the year | **-** | (71,463) |
| At 31 December | **527,525** | 490,317 |

All of the Group's investment properties are held under freehold interest and located in the U.A.E.

The fair value of investment properties as at 31 December 2015 has been arrived at on the basis of a valuation carried out by independent professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

There has been no change to the valuation technique during the year.

Fair value hierarchy of the Group's investment properties are as follows:

**At 31 December 2015**

| | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Investment properties | **-** | **527,525** | **-** | **527,525** |

At 31 December 2014

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Investment properties | - | 490,317 | - | 490,317 |

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

### 13 Property and equipment

| | Properties for own use AED'000 | Furniture, fixtures, equipment & vehicles AED'000 | Improvements to freehold properties and other AED'000 | Ca wo pro AE |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 1,053,893 | 424,639 | 450,810 | 1 |
| Additions during the year | 30,204 | 73,573 | 69,312 | 1 |
| Transfers | - | (205) | 205 | |
| Disposals/write-offs | (35,354) | (17,362) | (80,243) | |
| At 31 December 2014 | 1,048,743 | 480,645 | 440,084 | 3 |
| Additions during the year | **30,889** | **93,804** | **93,992** | **1** |
| Transfers | **-** | **6,782** | **-** | **(** |
| Disposals/write-offs | **(723)** | **(80,684)** | **(49,642)** | |
| **At 31 December 2015** | **1,078,909** | **500,547** | **484,434** | **4** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2014 | 362,662 | 275,603 | 209,382 | |
| Charge for the year (Note 31) | 19,092 | 58,615 | 69,478 | |
| Transfers | - | (29) | 29 | |
| Eliminated on disposals/write-offs | (3,313) | (12,113) | (78,265) | |
| At 31 December 2014 | 378,441 | 322,076 | 200,624 | |
| Charge for the year (Note 31) | **18,615** | **62,232** | **67,790** | |
| Eliminated on disposals/write-offs | **(240)** | **(73,261)** | **(34,316)** | |
| **At 31 December 2015** | **396,816** | **311,047** | **234,098** | |
| **Carrying amount** | | | | |
| **At 31 December 2015** | **682,093** | **189,500** | **250,336** | **4** |
| At 31 December 2014 | 670,302 | 158,569 | 239,460 | 3 |

Included in capital work-in-progress AED 32 million represents implementation of a new insurance underwriting system.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Time | **4,086,745** | 5,439,530 |
| Demand | **2,262,741** | 1,356,613 |
| Overnight | **2,882,427** | 1,428,390 |
| | **9,231,913** | 8,224,533 |

(b) The above represent borrowings from:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Banks within the U.A.E. | **2,848,821** | 2,463,344 |
| Banks outside the U.A.E. | **6,383,092** | 5,761,189 |
| | **9,231,913** | 8,224,533 |

## 15 Repurchase agreements with banks

| **Repricing** | **Maturity date** | **Interest rate** | **2015 AED'000** | 2014 AED'000 |
|---|---|---|---|---|
| 6 months | May 2016 | 0.94% per annum | **734,564** | - |
| 3 months | August 2015 | 2.48% per annum | **-** | 623,036 |
| | | | **734,564** | 623,036 |

Collateral given against these Repo borrowings is disclosed in Notes 7 and 8 to the consolidated financial statements.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Current and other accounts | **38,839,043** | 36,388,965 |
| Saving accounts | **3,555,435** | 3,440,844 |
| Time deposits | **22,849,312** | 23,475,568 |
| | **65,243,790** | 63,305,377 |

(b) Analysis by industry sector:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Government and public sector | **4,959,337** | 8,584,524 |
| Commercial and business | **43,440,872** | 38,808,823 |
| Personal | **14,397,197** | 13,608,379 |
| Financial institutions | **2,024,684** | 2,260,613 |
| Other | **421,700** | 43,038 |
| | **65,243,790** | 63,305,377 |

## 17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Current and other accounts | **2,845,304** | 2,470,438 |
| Saving accounts | **172,525** | 217,218 |
| Time deposits | **5,373,661** | 2,495,110 |
| | **8,391,490** | 5,182,766 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Government and public sector | **2,587,933** | 186,811 |
| Commercial and business | **2,987,231** | 2,355,310 |
| Personal | **696,499** | 674,585 |
| Financial institutions | **2,119,827** | 1,966,060 |
| | **8,391,490** | 5,182,766 |

## 18 Insurance and life assurance funds

| | **Outstanding claims AED'000** | **Unearned premium reserve AED'000** | **Additional reserve AED'000** | **Life assurance fund AED'000** | **Total AED'000** |
|---|---|---|---|---|---|
| At 1 January 2014 | 372,099 | 501,299 | 100,105 | 453,496 | 1,426,999 |
| Increase/(decrease) | 55,266 | 106,684 | (26,593) | 92,783 | 228,140 |
| At 31 December 2014 | 427,365 | 607,983 | 73,512 | 546,279 | 1,655,139 |
| **Increase/(decrease)** | **(29,772)** | **(118,486)** | **75,570** | **(22,747)** | **(95,435)** |
| **At 31 December 2015** | **397,593** | **489,497** | **149,082** | **523,532** | **1,559,704** |

Unearned premium reserve is calculated on time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

Life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 19 Other liabilities

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Interest payable | **231,871** | 147,597 |
| Negative fair value of derivatives (Note 41) | **872,607** | 1,075,932 |
| Acceptances* | **3,499,817** | 2,417,525 |
| Insurance premium collected in advance | **540,781** | 301,943 |
| Accrued expenses | **598,805** | 482,209 |
| Income received in advance | **200,935** | 123,046 |
| Pay orders issued | **295,519** | 206,568 |
| Provision for employees' end of service indemnity** | **193,997** | 188,530 |
| Credit card related payables | **45,612** | 10,685 |
| Provision for taxation | **87,326** | 74,050 |
| Other | **836,866** | 894,549 |
| | **7,404,136** | 5,922,634 |

* Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset (Note 10).

** Provision for employees' end of service indemnity included AED 181 million (2014: AED 178 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside U.A.E and is computed based on the local laws and regulations of respective jurisdications.

## 20 Medium-term loans

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Medium term notes | **2,269,356** | 2,171,743 |
| Syndicated Loan | **1,836,500** | 1,836,500 |
| | **4,105,856** | 4,008,243 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**20 Medium-term loans** (continued)

(a) The maturities of the medium-term notes (MTNs) issued under the programme are as follows:

| Due date | Interest rate | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| 20 February 2015 | 1.450% | - | 183,650 |
| 12 June 2015 | 1.300% | - | 183,650 |
| 19 June 2015 | 3 months Libor + 0.900% | - | 36,730 |
| 27 November 2015 | 1.330 % | - | 91,825 |
| 24 February 2016 | 3 months Libor + 1.450% | **110,190** | 110,190 |
| 16 May 2016 | 3 months Euribor + 1.250% | **41,369** | 46,000 |
| 23 June 2016 | 1.370% | **183,650** | - |
| 25 June 2016 | 2.060% | **36,730** | 36,730 |
| 30 June 2016 | 3 months Libor +0.780% | **36,730** | - |
| 7 July 2016 | 3 months Libor + 1.300% | **93,294** | 93,294 |
| 9 July 2016 | 1.300% | **36,730** | - |
| 28 July 2016 | 0.270% | **47,115** | - |
| 4 August 2016 | 3 months Libor +0.800% | **73,460** | - |
| 5 August 2016 | 3 months Libor + 0.850% | **95,787** | 95,651 |
| 18 August 2016 | 0.280% | **43,974** | - |
| 11 October 2016 | 0.250% | **94,230** | - |
| 19 December 2016 | 0.380% | **31,410** | - |
| 18 January 2017 | 3 months Libor + 1.000% | **91,825** | 91,825 |
| 24 January 2017 | 3 months Libor +1.125% | **1,020,726** | 1,020,726 |
| 6 February 2017 | 2.750% | **121,945** | 126,376 |
| 6 June 2017 | 3 months Libor + 1.750% | **55,096** | 55,096 |
| 23 April 2018 | 3 months Libor +1.050% | **55,095** | - |
| | | **2,269,356** | 2,171,743 |

Medium term notes are denominated in following currencies:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| U.S. Dollars | **1,793,526** | 1,903,716 |
| Swiss Francs | **95,787** | 95,651 |
| Kuwaiti Dinar | **121,945** | 126,376 |
| Euro | **41,369** | 46,000 |
| Japanese Yen | **216,729** | - |
| | **2,269,356** | 2,171,743 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 20 Medium-term loans (continued)

The Group established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2.75 billion) under an agreement dated 4 February 2004. On 15 March 2010, the EMTN programme limit was increased to USD 5 billion (AED 18.37 billion).

AED 1.02 billion is a subordinated floating rate note ("FRN") and qualified and approved by U.A.E. Central Bank for Tier 2 subordinated loan capital till 2012 and is consequently being amortised at the rate of 20% per annum for next five years until 2017 for capital adequacy calculation purposes.

During the year, new medium-term notes of AED 602 million were issued and AED 496 million of medium-term notes were redeemed.

(b) During the year ended 31 December 2014, the Group had signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of 3 years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis.

## 21 Issued and paid up capital and reserves

### (a) Issued and paid up capital

As at 31 December 2015, 177,530,823 ordinary shares of AED 10 each (31 December 2014: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 22 February 2015, the shareholders approved a stock dividend in respect of the year ended 31 December 2014 at 5% of the issued and paid up capital, amounting to AED 84.53 million. Accordingly, the authorised and issued share capital was increased by the amount of stock dividends.

### (b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

### (c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 21 Issued and paid up capital and reserves (continued)

### (d) Cumulative translation adjustment

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the cumulative translation adjustment reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the cumulative translation adjustment reserve. Exchange differences previously accumulated in the cumulative translation adjustment reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated income statement on the disposal of the foreign operation.

### (e) Investments revaluation reserve

Investment revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 178 million (2014: profit of AED 6 million) and was reflected in the consolidated statement of comprehensive income.

### (f) Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated income statement only when the hedged transaction affects the consolidated income statement, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

The movement of the cash flow hedging reserve is below:

| | **2015 AED'000** |
|---|---|
| At 1 January | - |
| Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges | **10,791** |
| Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated income statement | **(1,570)** |
| **At 31 December** | **9,221** |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 21 Issued and paid up capital and reserves (continued)

### (g) Dividends on equity instruments

During the year ended 31 December 2015, a 40% cash dividend amounting to AED 676 million for the year ended 31 December 2014 (2013: AED 676 million) was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting held on 22 February 2015.

## 22 Non-controlling interests

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **755,668** | 673,547 |
| Profit for the year | **32,538** | 85,011 |
| Other comprehensive (loss)/income for the year | **(56,069)** | 3,810 |
| Dividends paid | **(18,129)** | (16,789) |
| Additional contribution attributable to the new non-controlling interest shareholders* | **3,110** | 10,089 |
| At 31 December | **717,118** | 755,668 |

* Additional contribution was made during the year by the non-controlling interest shareholders of Dubai Group Sigorta A.Ş.

## 23 Contra accounts and commitments

(a) The analysis of the Group's contra accounts and commitments is as follows:

| | | **2015 AED'000** | 2014 AED'000 |
|---|---|---|---|
| (i) | Contra accounts (memoranda) | | |
| | Guarantees | **40,720,747** | 41,555,387 |
| | Letters of credit | **5,912,089** | 6,425,015 |
| | | **46,632,836** | 47,980,402 |
| (ii) | Commitments for acquisition of property and equipment | **110,710** | 76,330 |
| (iii) | Operating lease commitments | **124,061** | 112,494 |
| **Total contra accounts and commitments** | | **46,867,607** | 48,169,226 |

(b) Irrevocable undrawn facilities commitments as at 31 December 2015 amounted to AED 4.73 billion (2014: AED 4.38 billion).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**23 Contra accounts and commitments** (continued)

(c) Contra accounts – maturity profile

The maturity profile of the Group's contra accounts were as follows:

**2015**

| | **Within 3 months AED'000** | **Over 3 to 6 months AED'000** | **Over 6 to 12 months AED'000** | **Over 1 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| **Guarantees** | **16,278,449** | **1,974,273** | **1,790,644** | **7,863,492** | **12,813,889** | **40,720,747** |
| **Letters of credit** | **2,495,726** | **613,044** | **1,374,641** | **1,428,678** | **-** | **5,912,089** |
| **Total** | **18,774,175** | **2,587,317** | **3,165,285** | **9,292,170** | **12,813,889** | **46,632,836** |

2014

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Guarantees | 15,922,773 | 1,925,191 | 1,973,526 | 6,655,986 | 15,077,911 | 41,555,387 |
| Letters of credit | 3,832,992 | 43,705 | 673,427 | 1,874,891 | - | 6,425,015 |
| Total | 19,755,765 | 1,968,896 | 2,646,953 | 8,530,877 | 15,077,911 | 47,980,402 |

The analysis of commitments and contingencies by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Less than 1 year | **40,522** | 37,114 |
| 1 to 5 years | **53,737** | 53,987 |
| Over 5 years | **29,802** | 21,393 |
| Total | **124,061** | 112,494 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 24 Interest income

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Loans and advances | **3,318,455** | 3,149,929 |
| Banks | **379,512** | 383,626 |
| Other financial assets | **258,663** | 182,495 |
| Central banks | **145,316** | 66,491 |
| | **4,101,946** | 3,782,541 |

## 25 Income from Islamic financing and investment products

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Financing | | |
| Murabaha | **160,940** | 148,162 |
| Ijara | **57,676** | 60,919 |
| Other | **3,032** | 6,006 |
| | **221,648** | 215,087 |
| Investment | | |
| Mushakara | **-** | 1,586 |
| Mudaraba | **5,220** | 7,388 |
| Wakala | **31,425** | 18,631 |
| | **36,645** | 27,605 |
| Total | **258,293** | 242,692 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 26 Interest expense

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Customers' deposits | **608,318** | 568,176 |
| Deposits and balances due to central banks | **-** | 37 |
| Deposits and balances due to other banks | **363,769** | 326,687 |
| Medium-term loans | **61,105** | 39,326 |
| | **1,033,192** | 934,226 |

## 27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Sharia'a Supervisory Board.

## 28 Net fee and commission income

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Fee and commission income** | | |
| Commission income | **628,602** | 705,444 |
| Brokerage and asset management | **26,919** | 83,408 |
| Insurance commission | **309,004** | 333,089 |
| Fees and charges on banking services | **656,842** | 706,701 |
| Credit card related fees | **1,212,096** | 989,724 |
| Other | **191,124** | 186,065 |
| **Total fee and commission income** | **3,024,587** | 3,004,431 |
| **Fee and commission expenses** | | |
| Commission expense | **(96,735)** | (162,556) |
| Brokerage and asset management | **(372)** | (323) |
| Insurance commission | **(330,053)** | (401,201) |
| Credit card related expenses | **(802,923)** | (659,113) |
| Other | **(70,096)** | (72,617) |
| **Total fee and commission expenses** | **(1,300,179)** | (1,295,810) |
| **Net fee and commission income** | **1,724,408** | 1,708,621 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 29 Net investment income

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Net realised gain from sale of other financial assets measured at FVTPL | **33,305** | 36,407 |
| Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)] | **(41,291)** | 33,174 |
| Interest income from debt securities at FVTPL | **160,330** | 85,544 |
| Dividends income from other financial assets measured at FVTPL | **1,019** | 776 |
| Net realised loss from sale of other financial assets measured at amortised cost | **(10,345)** | (4,048) |
| Dividend income from financial assets measured at FVTOCI [Note 7 (j)] | **26,088** | 36,116 |
| | **169,106** | 187,969 |

## 30 Other income, net

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Fair value adjustments of investment properties (Note 12) | **34,196** | 82,406 |
| Foreign exchange gains, net | **413,100** | 291,965 |
| Insurance and other related income, net [Note 30(a)] | **334,048** | 423,690 |
| (Loss)/gain on disposal of property and equipment | **(4,959)** | 24,414 |
| Gain from disposal of investment properties | **-** | 16,807 |
| Fair value adjustment – derivatives | **7,070** | 4,328 |
| Other | **38,747** | 64,856 |
| | **822,202** | 908,466 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 30 Other income, net (continued)

### (a) Insurance and other related income, net

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Net insurance premium revenue | **1,399,184** | 1,453,698 |
| Net claims incurred | **(1,115,567)** | (1,065,273) |
| Other insurance related income, net | **50,431** | 35,265 |
| | **334,048** | 423,690 |

## 31 General and administrative expenses

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Salaries and employees related expenses | **1,405,758** | 1,293,327 |
| Depreciation on property and equipment (Note 13) | **148,637** | 147,185 |
| Social contribution | **1,238** | 1,324 |
| Other | **916,894** | 767,791 |
| | **2,472,527** | 2,209,627 |

Pension and national insurance contribution for U.A.E. citizens are made by the Group in accordance with Federal Law No. 7 of 1999.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 32 Allowances for impairment, net

**2015**

| | **Retail AED'000** | **Corporate and others AED'000** | **Collective impairment AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Allowance for / (reversal of) impaired loans and advances, net [Note 8 (e)] | **106,883** | **987,501** | **(305,170)** | **789,214** |
| Allowance for impaired balances due from banks, net [Note 6 (c)] | **-** | **261** | **-** | **261** |
| Allowance for other assets, net | **-** | **38,120** | **-** | **38,120** |
| (Reversal of) / allowance for impaired Islamic assets, net [Note 9(d)] | **(8,382)** | **-** | **8,000** | **(382)** |
| Reversal of allowance against impaired other financial assets [Note 7 (d)] | **-** | **(33,852)** | **-** | **(33,852)** |
| Write-off of impaired loans and advances | **470,835** | **-** | **-** | **470,835** |
| Recovery of allowance against impaired loans and advances [Note 8 (e)] | **-** | **(5,215)** | **-** | **(5,215)** |
| Recovery of loans and advances previously written off | **(43,596)** | **(215,580)** | **-** | **(259,176)** |
| | **525,740** | **771,235** | **(297,170)** | **999,805** |

2014

| | Retail AED'000 | Corporate and others AED'000 | Collective impairment AED'000 | Total AED'000 |
|---|---|---|---|---|
| Allowance for impaired loans and advances, net [Note 8 (e)] | 63,683 | 182,662 | 596,290 | 842,635 |
| Allowance for impaired balances due from banks, net [Note 6 (c)] | - | 5,655 | - | 5,655 |
| Allowance for other debtors, net | - | 295 | - | 295 |
| (Reversal of) /allowance for impaired Islamic assets, net [Note 9(d)] | (2,812) | - | 10,000 | 7,188 |
| Write-off of impaired loans and advances | 339,834 | - | - | 339,834 |
| Recovery of allowance against impaired loans and advances [Note 8 (e)] | - | (63,491) | - | (63,491) |
| Allowance for impaired other financial assets [Note 7 (d)] | - | 51,450 | - | 51,450 |
| Recovery of allowance against impaired balance due from banks [Note 6 (c)] | - | (45,492) | - | (45,492) |
| Recovery of loans and advances previously written off | (54,568) | (8,789) | - | (63,357) |
| | 346,137 | 122,290 | 606,290 | 1,074,717 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 33 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year. In accordance with IAS 33 *Earnings Per Share*, the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented as follows:

| | **2015 AED** | 2014 AED |
|---|---|---|
| Profit for the year (AED'000) (Attributed to owners of the Parent) | **2,402,107** | 2,401,259 |
| Number of ordinary shares outstanding [Note 21 (a)] | **177,530,823** | 177,530,823 |
| Basic and diluted earnings per share (AED) | **13.53** | 13.53 |

## 34 Proposed dividends

The Board of Directors has proposed 40% cash dividend at their meeting held on 27 January 2016.

## 35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Cash on hand | **845,591** | 1,077,927 |
| Balances with central banks: | | |
| Current accounts and other balances | **8,203,244** | 5,381,371 |
| Deposits and balances due from banks maturing within 3 months | **10,828,896** | 10,033,234 |
| | **19,877,731** | 16,492,532 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 36 Investment in subsidiaries

(a) At 31 December 2015, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct subsidiaries:

| Name of subsidiary | Place of incorporation (or registration) and operation | Proportion of ownership interest % | Proportion of voting power held % | Principal activity |
|---|---|---|---|---|
| Osool – A Finance Company (PJSC) | United Arab Emirates | 98.00 | 98.00 | Finance |
| Oman Insurance Company (PSC) Group | United Arab Emirates | 63.94 | 63.94 | Insurance & reinsurance |
| Mindscape Information Technology L.L.C. | United Arab Emirates | 99.00 | 99.00 | Software/Application provider |
| Mashreq Securities LLC | United Arab Emirates | 99.98 | 99.98 | Brokerage |
| Injaz Services FZ LLC | United Arab Emirates | 100.00 | 100.00 | Service provider |
| Mashreq Al Islami Finance Company (PJSC) | United Arab Emirates | 99.80 | 99.80 | Islamic finance company |
| Mashreq Capital (DIFC) Limited | United Arab Emirates | 100.00 | 100.00 | Brokerage and asset & fund management |
| Makaseb Funds Company BSC | Kingdom of Bahrain | 99.90 | 99.90 | Fund manager |
| Makaseb Funds Company BSC II | Kingdom of Bahrain | 99.90 | 99.90 | Fund manager |
| Invictus Limited | Cayman Islands | 100.00 | 100.00 | Special Purpose vehicle |
| Bracebridge Limited | British Virgin Islands | * | 100.00 | Special purpose vehicle |
| Orriston Limited | British Virgin Islands | * | 100.00 | Special purpose vehicle |

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of effective control.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**36 Investment in subsidiaries** (continued)

(b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

| Name of Subsidiary | Profit allocated to non-controlling interest | | Accumulated non-controlling interest | |
|---|---|---|---|---|
| | **2015 AED '000** | 2014 AED '000 | **2015 AED '000** | 2014 AED '000 |
| Oman Insurance Company (PSC) Group | **31,355** | 84,622 | **699,630** | 749,627 |
| Individually immaterial subsidiaries with non-controlling interests | **1,183** | 389 | **17,488** | 6,041 |
| | **32,538** | 85,011 | **717,118** | 755,668 |

(c) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interests. The financial information represents balances before intra-group eliminations.

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| ***Statement of financial position*** | | |
| **Total assets** | **5,947,870** | 6,035,426 |
| **Total liabilities** | **4,031,726** | 4,035,478 |
| **Net equity** | **1,916,144** | 1,999,948 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**36 Investment in subsidiaries** (continued)

(c) Below is the summarised financial information of the Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interest. The financial information represents balances before intra-group eliminations (continued).

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| ***Statement of comprehensive income*** | | |
| Net insurance premium revenue | **1,399,184** | 1,453,698 |
| Net claims incurred | **(1,115,567)** | (1,065,273) |
| Net commission and other income/(loss) | **29,415** | (15,697) |
| Net investment income | **89,274** | 142,253 |
| Net expenses | **(319,823)** | (289,381) |
| Profit for the year | **82,483** | 225,600 |
| Other comprehensive (loss)/income | **(126,994)** | 14,475 |
| **Total comprehensive (loss)/income** | **(44,511)** | 240,075 |

| | | |
|---|---|---|
| ***Statement of cash flows*** | | |
| Net cash generated from operating activities | **8,649** | 156,993 |
| Net cash used in investing activities | **(227,526)** | (116,133) |
| Net cash flows used in financing activities | **(9,588)** | (36,086) |
| **Net (decrease)/increase in cash and cash equivalents** | **(228,465)** | 4,774 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 37 Related party transactions

(a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

(b) The Group is controlled by Al Ghurair Family members who own 87.73% (2014: 87.31%) of the issued and paid up capital.

(c) Related party balances included in the consolidated statement of financial position are as follows:

| | **2015**<br>**AED '000** | 2014<br>AED '000 |
|---|---|---|
| Loans and advances measured at amortised cost | **1,539,510** | 1,413,188 |
| Customer's deposits | **1,401,076** | 1,373,672 |
| Letters of credit and guarantee | **2,014,011** | 1,901,508 |

(d) Profit for the year includes related party transactions as follows:

| | **2015**<br>**AED '000** | 2014<br>AED '000 |
|---|---|---|
| Interest income | **63,981** | 95,517 |
| Interest expense | **10,353** | 24,407 |
| Other income, net | **52,276** | 79,705 |

(e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 148 million (2014: AED 148 million).

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 38 Concentrations of assets, liabilities and off balance sheet items

### (a) Geographic regions

| | 2015 | | | |
|---|---|---|---|---|
| | **Assets AED'000** | **Liabilities AED'000** | **Off balance sheet items AED'000** | Assets AED'000 |
| U.A.E. | **68,815,128** | **61,846,876** | **31,018,057** | 64,136,335 |
| Other Middle East Countries | **20,893,680** | **18,591,634** | **9,267,172** | 20,022,861 |
| O.E.C.D. | **10,269,825** | **11,309,970** | **3,192,241** | 8,859,491 |
| Other | **15,178,548** | **4,922,973** | **3,155,366** | 12,821,591 |
| | **115,157,181** | **96,671,453** | **46,632,836** | 105,840,278 |

### (b) Industry Sector

| | 2015 | | | |
|---|---|---|---|---|
| | **Assets AED'000** | **Liabilities AED'000** | **Off balance sheet items AED'000** | Assets AED'000 |
| Government and Public Sector | **15,435,113** | **5,660,054** | **175,107** | 12,784,184 |
| Commercial & Business | **37,825,368** | **52,306,710** | **36,028,354** | 34,572,606 |
| Personal | **15,015,784** | **15,431,320** | **920,813** | 15,772,150 |
| Financial Institutions | **44,848,944** | **22,269,348** | **9,439,408** | 38,010,792 |
| Other | **2,031,972** | **1,004,021** | **69,154** | 4,700,546 |
| | **115,157,181** | **96,671,453** | **46,632,836** | 105,840,278 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 39 Segmental information

*Reportable segments*

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 are therefore as follows:

1. The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the U.A.E. Trade finance, contracting finance, project finance, investment banking, corporate advisory and cash management are the major products and / or business lines making up this segment.

2. The **Domestic Retail** segment includes products and services offered to individuals or small businesses within the U.A.E. The product offerings to customers include current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, Private banking and wealth management services.

3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset-Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

4. The **International Banking** segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection, risk participations.

5. All Islamic banking products offered to customers are included under the **Islamic Banking** segment. These products are Ijara Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijara Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.

6. The Insurance subsidiary, Oman Insurance Company (PSC) – comprises the **Insurance** segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas income tax expenses.

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

### 39 Segmental information (continued)

*Reportable segments* (continued)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 |
| Net interest income and earnings from Islamic products | 876,311 | 1,202,319 | 69,458 | 631,421 | 193,036 |
| Other operating income, net | 447,411 | 635,477 | 483,192 | 669,321 | 114,534 |
| Total operating income | 1,323,722 | 1,837,796 | 552,650 | 1,300,742 | 307,570 |
| General and administrative expenses | | | | | |
| Allowances for impairment | | | | | |
| Profit before taxes | | | | | |
| Overseas income tax expense | | | | | |
| Profit for the year | | | | | |
| Attributed to: | | | | | |
| Owners of the Parent | | | | | |
| Non-controlling interests | | | | | |
| Segment Assets | 29,500,767 | 14,430,585 | 15,657,273 | 32,831,357 | 7,594,622 |
| Segment Liabilities | 26,799,217 | 23,041,000 | 9,009,000 | 21,281,772 | 8,459,961 |

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

### 39 Segmental information (continued)

*Reportable segments* (continued)

| | | | | 2014 | |
|---|---|---|---|---|---|
| | Domestic corporate AED'000 | Domestic retail AED'000 | Treasury & capital markets AED'000 | International banking AED'000 | Islamic banking AED'000 |
| Net interest income and earnings from Islamic products | 883,284 | 1,099,006 | 89,188 | 499,795 | 191,509 |
| Other operating income, net | 545,978 | 526,768 | 510,174 | 559,381 | 119,098 |
| Total operating income | 1,429,262 | 1,625,774 | 599,362 | 1,059,176 | 310,607 |
| General and administrative expenses | | | | | |
| Allowances for impairment, net | | | | | |
| Profit before taxes | | | | | |
| Overseas income tax expense | | | | | |
| Profit for the year | | | | | |
| Attributed to: | | | | | |
| Owners of the Parent | | | | | |
| Non-controlling interests | | | | | |
| Segment Assets | 29,617,480 | 14,060,662 | 13,697,901 | 28,548,004 | 6,573,707 |
| Segment Liabilities | 31,276,115 | 19,010,000 | 8,174,000 | 19,364,000 | 5,219,124 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 39 Segmental information (continued)

*Geographical information*

The Group operates in four principal geographical areas – U.A.E. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

| | **Operating income external customers *** | | **Non-current assets **** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| U.A.E. | **4,968,974** | 4,991,845 | **1,653,031** | 1,562,794 |
| Other Middle East countries | **790,110** | 634,901 | **36,008** | 29,226 |
| O.E.C.D. | **167,524** | 163,299 | **2,476** | 2,722 |
| Other countries | **50,897** | 54,834 | **19,530** | 28,283 |
| | **5,977,505** | 5,844,879 | **1,711,045** | 1,623,025 |

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property and equipment, investment properties and goodwill.

*Revenue from major products and services*

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

*Information about major customers*

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2015 and 2014.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2015:

| | FVTPL AED'000 | FVTOCI AED'000 | Amortised cost AED'000 | Total AED'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash and balances with central banks | - | - | 19,423,463 | 19,423,463 |
| Deposits and balances due from banks | - | - | 15,009,990 | 15,009,990 |
| Other financial assets measured at fair value | 3,267,810 | 657,155 | - | 3,924,965 |
| Loans and advances measured at amortised cost | - | - | 53,555,070 | 53,555,070 |
| Islamic financing and investment products measured at amortised cost | - | - | 6,610,606 | 6,610,606 |
| Other financial assets measured at amortised cost | - | - | 7,993,072 | 7,993,072 |
| Other assets | 879,233 | - | 5,647,102 | 6,526,335 |
| **Total** | 4,147,043 | 657,155 | 108,239,303 | 113,043,501 |
| **Financial liabilities:** | | | | |
| Deposits and balances due to banks | - | - | 9,231,913 | 9,231,913 |
| Repurchase agreements with banks | - | - | 734,564 | 734,564 |
| Customers' deposits | - | - | 65,243,790 | 65,243,790 |
| Islamic customers' deposits | - | - | 8,391,490 | 8,391,490 |
| Other liabilities | 872,607 | - | 5,508,490 | 6,381,097 |
| Medium-term loans | - | - | 4,105,856 | 4,105,856 |
| **Total** | 872,607 | - | 93,216,103 | 94,088,710 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014:

| | FVTPL AED'000 | FVTOCI AED'000 | Amortised cost AED'000 | Total AED'000 |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and balances with central banks | - | - | 15,159,258 | 15,159,258 |
| Deposits and balances due from banks | - | - | 14,211,256 | 14,211,256 |
| Other financial assets measured at fair value | 2,419,549 | 789,785 | - | 3,209,334 |
| Loans and advances measured at amortised cost | - | - | 52,246,614 | 52,246,614 |
| Islamic financing and investment products measured at amortised cost | - | - | 5,799,094 | 5,799,094 |
| Other financial assets measured at amortised cost | - | - | 7,579,700 | 7,579,700 |
| Other assets | 1,073,437 | - | 4,548,179 | 5,621,616 |
| Total | 3,492,986 | 789,785 | 99,544,101 | 103,826,872 |
| Financial liabilities: | | | | |
| Deposits and balances due to banks | - | - | 8,224,533 | 8,224,533 |
| Repurchase agreements with banks | - | - | 623,036 | 623,036 |
| Customers' deposits | - | - | 63,305,377 | 63,305,377 |
| Islamic customers' deposits | - | - | 5,182,766 | 5,182,766 |
| Other liabilities | 1,075,932 | - | 4,159,133 | 5,235,065 |
| Medium-term loans | - | - | 4,008,243 | 4,008,243 |
| Total | 1,075,932 | - | 85,503,088 | 86,579,020 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 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.

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

**41 Derivatives** (continued)

**Statement of Derivatives as at 31 December 2015**

| | | | | Notional a | |
|---|---|---|---|---|---|
| | 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 |
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contract | 246,524 | 251,518 | 52,793,334 | 42,433,000 | 5,440,883 |
| Foreign exchange options (bought) | - | 26,821 | 2,825,778 | 1,392,343 | 449,175 |
| Foreign exchange options (sold) | 28,804 | - | 2,416,564 | 1,894,483 | 86,427 |
| Interest rate swaps | 595,413 | 591,110 | 31,254,336 | 1,611,688 | 72,424 |
| Credit default swaps | 17 | - | 18,365 | - | 18,365 |
| Equity options | 3,499 | - | 20,234 | 20,234 | - |
| Futures contracts purchased (Customer) | - | 48 | 36,551 | 34,118 | 2,433 |
| Futures contracts sold (Customer) | - | 2,361 | 122,695 | 122,695 | - |
| Futures contracts sold (Bank) | 48 | - | 36,551 | 34,118 | 2,433 |
| Futures contracts purchased (Bank) | 2,361 | - | 122,695 | 122,695 | - |
| | 876,666 | 871,858 | 89,647,103 | 47,665,374 | 6,072,140 |
| *Derivatives held as cash flow hedges:* | | | | | |
| Cross currency swaps | 2,567 | 749 | 270,735 | - | - |
| Total | 879,233 | 872,607 | 89,917,838 | 47,665,374 | 6,072,140 |

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

## 41 Derivatives (continued)

Statement of Derivatives as at 31 December 2014

| | | | | Notional ar | |
|---|---|---|---|---|---|
| | 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 |
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contract | 300,772 | 306,367 | 40,529,804 | 26,681,216 | 11,364,235 |
| Foreign exchange options (bought) | | 48,329 | 5,834,270 | 127,820 | 1,712,346 |
| Foreign exchange options (sold) | 48,366 | - | 5,833,191 | 127,821 | 1,711,266 |
| Interest rate swaps | 718,306 | 716,915 | 27,577,008 | 574,671 | 1,136,637 |
| Credit Defaul Swaps | 632 | - | 10,000 | - | 10,000 |
| Equity options | 1,040 | - | 10,117 | 10,117 | - |
| Futures contracts purchased (Customer) | - | 2,921 | 87,526 | 86,383 | 1,143 |
| Futures contracts sold (Customer) | 1,400 | - | 142,308 | 140,524 | 1,784 |
| Futures contracts sold (Bank) | 2,921 | - | 87,526 | 86,383 | 1,143 |
| Futures contracts purchased (Bank) | - | 1,400 | 142,308 | 140,524 | 1,784 |
| | 1,073,437 | 1,075,932 | 80,254,058 | 27,975,459 | 15,940,338 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 42 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the BCBS (Basel Committee) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business.

### Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the U.A.E. adopted the Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly owned, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of CRWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (up to a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI.
- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however the Regulator may allow use of excess capital (over regulatory limits) invested.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 42 Capital management (continued)

**Regulatory capital** (continued)

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA.

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. For U.A.E. Central Bank reporting purposes, the bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group issued in the year ended 31 December 2007 medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

The Group's regulatory capital positions as at 31 December 2015 and 2014 were as follows:

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 42 Capital management (continued)

**Regulatory capital** (continued)

| | | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| ***Tier 1 capital*** | | | |
| Issued and paid up capital | | **1,775,308** | 1,690,770 |
| Statutory and legal reserve | | **896,595** | 852,582 |
| General reserve | | **312,000** | 312,000 |
| Cumulative translation adjustment | | **(60,610)** | (53,315) |
| Goodwill | | **(18,150)** | (26,588) |
| Retained earnings | | **15,112,512** | 13,512,995 |
| Non-controlling interest | | **5,835** | 6,696 |
| Deduction from Tier 1 Capital | | **(22,750)** | (18,531) |
| Total | | **18,000,740** | 16,276,609 |
| ***Tier 2 capital*** | | | |
| Allowance for collective impairment | | **1,246,645** | 1,194,998 |
| Investments revaluation reserve | | **(276,416)** | (152,150) |
| Cash flow hegding reserve | | **9,221** | - |
| Qualifying subordinated liabilities* | | **221,157** | 425,303 |
| Deduction from Tier 2 Capital | | **(22,750)** | (18,531) |
| Total | | **1,177,857** | 1,449,620 |
| **Total capital base** | **(A)** | **19,178,597** | 17,726,229 |
| ***Risk-weighted assets*** | | | |
| Credit risk | | **99,731,614** | 95,599,856 |
| Market risk | | **4,424,390** | 2,982,151 |
| Operational risk | | **9,358,033** | 8,046,174 |
| **Total risk-weighted assets** | **(B)** | **113,514,037** | 106,628,181 |
| **Risk asset ratio** | **[(A)/(B) x 100]** | **16.90%** | 16.62% |

* Qualifying subordinated liabilities represents the following:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Medium-term notes [Note 20] | **1,020,726** | 1,020,726 |
| Less: Cumulative amortisation | **(799,569)** | (595,423) |
| | **221,157** | 425,303 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 42 Capital management (continued)

### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 43 Risk management

The core responsibility of the Risk Management Group is to identify, measure, mitigate, price and manage risk to ensure that the Bank generates sustainable returns by maintaining acceptable asset quality and meeting the desired capital return as mandated by the shareholders.

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Groups ability to consistently foster a robust risk management culture and framework is an important factor in its financial stability and growth.

***Risk Management Framework***

The Board of Directors (the "BOD") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by various committees including the Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee etc., who work under the mandate of the BOD. These committees approve risk management policies of the Bank developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Group. The Risk Committee is responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Risk Committee also monitors and establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain asset quality.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**43 Risk management** (continued)

The Risk Management Group function is independent of the business groups and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

*Risk Analytics and Modelling:*
The Audit, Fraud and Compliance Group (AFCG) are independent of Risk Management. AFCG provides independent assurance to stakeholders and senior management on compliance with all credit policies and procedures in the Bank and the effectiveness of credit management processes. This is undertaken by a periodic review of all risk-taking units, in addition to Risk Management. AFCG reports directly to the Chief Executive Officer (CEO).

Mashreq has robust metrics in place for determining Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD") variables. The Basel Risk Analytics and Modelling Unit within Risk Management Group is responsible as per Basel II guidelines for periodically validating various risk rating models including recalibration PD, LGD and EAD parameters.

The Internal Capital Adequacy Assessment Process (ICAAP) and the Stress Testing team within Risk Management Group is responsible for calculating the Group's economic capital requirement and managing the Group's Internal Capital Adequacy Assessment Process (ICAAP). This entails monitoring the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less risk capital demand) and recommending appropriate actions, as required.

As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific obligors or industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis

**Credit risk management**

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, dues from banks and financial institutions and non-trading investment activities.

Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established through adoption of prudent credit structures relevant to the credit risk. To reduce individual counterparty credit risk, the Group ensures that, whenever necessary, loans are secured by acceptable form of collateral. The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate performing borrower is assigned an internal rating between MRS 1 to MRS 25 and non-performing borrowers are assigned ratings of non-accrual under restructuring (NAUR), substandard, doubtful and loss.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

All credit policies are reviewed and approved by the Bank's Risk Committee. The policies are reviewed regularly to reflect changes in market conditions or regulatory requirements.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. Credit risk is also mitigated through adoption of prudent credit structures relevant to the credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

***Wholesale credit risk management***

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky or speculative.

Limit setting is based on a combination of factors, including a detailed evaluation of each customer's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

The Wholesale Credit Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head in line with the Wholesale Credit Policy, and approved by the Group's Chief Executive Officer (the "CEO").

The Group has established limits for managing transferability and convertibility, together defined as cross-border limits. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on each country's financial strength and stability, using a set of metrics such as external debt, overall fiscal position, exports, imports, foreign exchange reserves and external debt service ratio. These limits are then applied to all international transaction flows where there is a risk of default represented by convertibility and/or transferability restrictions.

Wholesale Credit Risk Management includes Special Assets Management Group that manages credits that are rated as watch list and worse. Special Assets Management Group was established to have a more focused view on all remedial accounts and, on a pro-active basis, identify and take timely actions on potential weak credits and also performs recovery function.

Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports to Operations & Technology Group.

***Retail credit risk management***

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to the approved product program, which is devised in accordance with guidelines set out in the retail credit policy manual approved by the Group's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models for high volume porducts such as Credit cards and Personal loans & based on manual underwriting on documented policies for low volume products such as Mortgages and Auto loans. Periodic and detailed credit reviews are performed at portfolio level to monitor and track portfolio performance.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

***Retail credit risk management*** (continued)

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels are also captured in the Product Program.

***Credit review procedures***

Specialists within AFCG undertake regular reviews of the portfolio. In the wholesale portfolio this involves sampling of assets. In retail the focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the Group's internal policies in order to assist in the early identification of potential problems and ensure approved credit policies, guidelines and operating procedures across the Group are implemented.

***Loan classification***

As per Mashreq's wholesale credit policy, all performing commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 – 22. Obligors at the higher risk end rated 21 and 22 are categorised as "Watch". Classified exposures fall into 5 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorised as "Specially Mentioned I" and 25 are categorised as "Specially Mentioned II". All Loans and advances rated from 21 to 25 are considered as Grade 4 – Watch-List in the note below.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non–performing assets.

Outside the 25 point scale, there are 4 ratings – Non-Accrual Under Restructuring (NAUR), Sub-standard, Doubtful and Loss, categorised as Non-Performing assets. NAUR rating is assigned to borrowers that are past due by more than 90 days on payment of interest and where negotiation for re-structuring is in progress. Sub-standard loans are assets where the ability to service the debt has been severely impacted and where the principal or interest is past due for over 90 days and there is no immediate prospects of a restructuring. Provisions and loans classification are taken in line with the Central Bank of U.A.E. guidelines.

When interest or principal of a credit is overdue for ninety days or more, interest is suspended and is not credited to consolidated income statement. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortisation into income of deferred loan fees ceases. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

Any collections on cash basis for non-performing loans are accounted for on the basis of credit policy. Where provisions are held, the amount collected is applied first towards principal, and then to interest. Where provisions are not held, the amount collected is applied first to interest and then to principal.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

***Impaired loans and securities***

Impaired loans and other financial assets are loans and other financial assets for which the Group determines that it will be unable to collect all principal and interest due according to the contractual terms of the loans and other financial assets agreements. These assets are graded Non-Accrual under Restructuring (NAUR), Sub-Standard, Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits. It also includes assets where interest has been suspended or stopped pending conclusion of the re-structuring.

Impairment of retail loans is calculated by applying a formulaic approach as per Central Bank guidelines whereby a provision of 25% of principal balance is made when it is past due by more than 90 days and less than 120 days a provision of 50% of principal balance is made when is past due by more than 120 days and less than 180 days. Where such a segregation is not possible as to principal balance, the provisions are taken as aforesaid on the total balance against the facility. Retail loans are written off at a maximum of 181 days past their due date, based on the characteristics of the underlying product. The only exception to this is mortgages, where provisioning is based on Central Bank guidelines. Notwithstanding for certain high risk mortgages, the entire outstanding is fully provided for at 180 days overdue.

***Past due but not impaired loans and securities***

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual interest or principal payments are past due. Very often these overdues are only for a few days and do not reflect fundamental weaknesses. On this class of asset the Group believes that specific impairment is not appropriate at the current condition on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

***Allowances for impairment***

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for the statistical possibility that some of these loan may get impaired in future.

The Group also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective interest rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available.

***Write-off policy***

The Group writes off a loan or other financial asset (and any related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Assets are written-off against provisions up to the extent of amount considered un-collectible. However, the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written off accounts.

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

### 43 Risk management (continued)

### Credit risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

| | Due from banks | | Loans and advances | | Islamic inv |
|---|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 | **2015 AED'00** |
| **Impaired** | | | | | |
| Non-Accrual Under Restructuring | - | - | **83,332** | 88,673 | |
| Substandard | - | - | **231,154** | 144,133 | **25,66** |
| Doubtful | - | 24,269 | **989,691** | 1,814,909 | **19,82** |
| Loss | - | - | **648,219** | 592,154 | **16,28** |
| Gross amount | - | 24,269 | **1,952,396** | 2,639,869 | **61,77** |
| Interest/profit suspended | **(122)** | (5,944) | **(229,533)** | (461,744) | **(4,71** |
| Specific allowance for impairment | - | (18,500) | **(774,884)** | (800,849) | **(19,21** |
| | **(122)** | (175) | **947,979** | 1,377,276 | **37,84** |
| **Past due but not impaired** | | | | | |
| Past due by less than 90 days | - | - | **99,788** | 132,215 | **94,76** |
| Past due beyond 90 days | - | - | **-** | - | **92,00** |
| Past due retail loans beyond 30 days | - | - | **365,776** | 195,342 | **25,87** |
| | - | - | **465,564** | 327,557 | **212,63** |
| **Neither past due nor impaired** | | | | | |
| Gross amount | **15,010,112** | 14,211,431 | **53,903,279** | 52,415,781 | **6,384,82** |
| Other allowances | - | - | **(202,000)** | (5,004) | |
| Collective allowance for impairment | - | - | **(1,559,752)** | (1,868,996) | **(24,70** |
| | **15,010,112** | 14,211,431 | **52,141,527** | 50,541,781 | **6,360,12** |
| **Carrying amount** | **15,009,990** | 14,211,256 | **53,555,070** | 52,246,614 | **6,610,60** |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

Other allowances represent the difference between the carrying amount prior to renegotiating of loans and the net present value of the future cashflows using the original effective interest rate.

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2015 and 2014 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

| | Loans and advances | | Islamic financing and investment products | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Grades** | **AED'000** | AED'000 | **AED'000** | AED'000 |
| Grade 1 – Low risk | **4,036,364** | 3,564,241 | **547,836** | - |
| Grade 2 – Satisfactory risk | **38,850,512** | 37,302,256 | **4,668,614** | 5,055,438 |
| Grade 3 – Fair Risk | **5,870,094** | 6,202,296 | **672,514** | 60,591 |
| Grade 4 – Watch List | **5,146,309** | 5,346,988 | **495,862** | 635,286 |
| | **53,903,279** | 52,415,781 | **6,384,826** | 5,751,315 |

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against other financial assets.

The table below details the fair value of the collateral which is updated regularly:

| | Loans and advances and Islamic financing and investment products | | Due from banks | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| **Against individually impaired loans and advances:** | | | | |
| Property | **178,288** | 227,276 | - | - |
| Equities | **477,942** | 805,538 | - | - |
| Cash | **2,848** | 2,859 | - | - |
| **Against loans and advances not impaired:** | | | | |
| Property | **9,845,672** | 9,556,561 | - | - |
| Equities | **1,234,669** | 1,247,348 | - | - |
| Cash | **619,112** | 518,303 | **192,953** | 127,288 |
| Others | **4,128,877** | 5,188,057 | - | - |
| Total | **16,487,408** | 17,545,942 | **192,953** | 127,288 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Credit risk management (continued)

The distributions by geographical concentration of impaired loans and advances measured at amortised cost and impairment allowance for credit losses are as follows:

| | U.A.E. AED'000 | Middle East countries AED'000 | O.E.C.D. AED'000 | Other countries AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Impaired loans and advances** | **906,280** | **1,045,916** | **200** | **-** | **1,952,396** |
| **Impairment allowance for credit losses inclusive of interest in suspense** | **(499,469)** | **(504,712)** | **(236)** | **-** | **(1,004,417)** |
| | **406,811** | **541,204** | **(36)** | **-** | **947,979** |
| 2014 | | | | | |
| Impaired loans and advances | 1,009,947 | 1,629,713 | 209 | - | 2,639,869 |
| Impairment allowance for credit losses inclusive of interest in suspense | (621,457) | (640,896) | (240) | - | (1,262,593) |
| | 388,490 | 988,817 | (31) | - | 1,377,276 |

The distributions by geographical concentration of impaired Islamic financing and investment products measured at amortised cost and impairment allowance for credit losses are as follows:

| | U.A.E. AED'000 | Middle East countries AED'000 | O.E.C.D. AED'000 | Other countries AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Impaired Islamic financing and investment products** | **48,755** | **13,017** | **-** | **-** | **61,772** |
| **Impairment allowance for credit losses inclusive of profit in suspense** | **(23,931)** | **-** | **-** | **-** | **(23,931)** |
| | **24,824** | **13,017** | **-** | **-** | **37,841** |
| 2014 | | | | | |
| Impaired Islamic financing and investment products | 70,121 | 13,017 | - | - | 83,138 |
| Impairment allowance for credit losses inclusive of profit in suspense | (31,314) | - | - | - | (31,314) |
| | 38,807 | 13,017 | - | - | 51,824 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Operational risk

Operational risk is risk of loss resulting from inadequate or failed internal processes, systems or human factors or from external events. Mashreq operational risk policy outlines the approach and governance structure for the monitoring and managing of operational risk.

Governance

Operational risk is inherent in Mashreq's activities and as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well defined independent Risk Management. The objective of operational risk management is to identify measure, mitigate and monitor operational risk.

Operational risk management is based on three lines of defence. Business units form the first line of defence. They have direct responsibility of identifying and managing operational risk in their areas of responsibility and provide effective and prompt risk management. Operational risk management is part of the strategic and day to day decision making process by business units.

Group operational risk function is the second line of defence which provides uniform method systems across the bank to help identify, evaluate and monitor operational risk. Group Operational Risk Function is responsible to develop, maintain and champion Mashreq's operational risk management framework, policies and enablers to support operational risk management in the business as well as the implementation of Basel II and regulatory requirements. The operational risk team develops and guides the strategies, policies and monitoring tools for assessing and managing operational risk across the bank.

Internal Audit is the third line of defence entrusted with the independent auditing of business unit and group operational risk function methodologies.

### Operational risk management

In accordance with principles in force within Mashreq, Operational Risk unit implemented a qualitative and quantitative system designed to identify, measure, monitor and mitigate operational risk, as required by Basel. The entire operational risk unit including the framework is subject to subject to audit. Below methodologies are being used in the management of operational risk

### Risk and control self assessment (RCSA)

RCSA is a forward looking process through which business units identifies risk and offers set of control to mitigate the risks. This exercise provides a good view of the operational risk heat map within each entity and activity and also provides an opportunity to assess the quality of control environment.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Key risk indicators (KRI)

Risk Indicators have been defined for each identified risk, which are collated monthly to provide meaningful trend information to the respective risk owners. This helps risk owners to assess the risk adequately and also act as a control and check point to identify under / over assessment of operational risk.

### Measuring operational risk

Internal operational loss database

The internal loss data is backward looking process which is essential for measurement and management of operational risk. Internal loss database provides very valuable information in order to improve the quality of internal controls system and to be compliant with regulatory requirements.

Regulatory capital

Regulatory reporting for operational risk capital is calculated on quarterly basis. Mashreq has adopted the Standardized approach in determining its operational risk capital requirements.

### Market risk management

Market Risk is the risk that fair value or cash flows of financial instruments held by Mashreq Group or its income may be adversely affected by movement in market factors such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market Risk at Mashreq Bank is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is completely independent of the business. The Market Risk Function reports to the Head of Risk Management.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily addresses risks arising from trading activities. Interest risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities. A comprehensive risk reporting framework is in place where by, the positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management team and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Policy and the concerned trading desk's limits package.

Each trading desk has a Permitted Product List comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from the TCM Product Policy Committee which assesses the risks associated with the product and verifies that they can be controlled effectively prior to approving the product.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Market risk management (continued)

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval using Monte Carlo Simulations approach across its trading portfolio. Value at Risk framework is supplemented by other limits and sensitivity triggers.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

During the year ended 31 December 2015, VaR was calculated regularly and as of 31 December 2015 the 99% one day VaR was USD 0.769 million (31 December 2014: USD 1.06 million).

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

### *Interest rate risk management*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by Assets and Liabilities Committee ("ALCO"). Since most of the Group's assets and liabilities are floating rate, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2015 would have been an decrease in profit by 3.86% (in case of decrease of interest rate) and would have been an increase in profit by 4.35% (in case of increase of interest rate) [2014: -4.40% and +4.69%] respectively.

During the year ended 31 December 2015, the effective interest rate on due from banks and certificates of deposits with central banks was 1.36% (2014: 1.03%), on loans and advances measured at amortised cost 5.40% (2014: 5.48%), on customers' deposits 0.87% (2014: 0.78%) and on due to banks (including repurchase agreements) 0.61% (2014: 0.91%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

## 43 Risk management (continued)

### Market risk management (continued)

*Interest rate risk management* (continued)

**Interest rate repricing analysis:**

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Ov y AED |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 9,067,710 | 1,300,000 | 740,150 | - | |
| Deposits and balances due from banks | 8,947,999 | 2,724,705 | 1,140,866 | 110,455 | 50, |
| Other financial assets measured at fair value | 520,704 | 542,360 | 1,128,184 | 58,713 | 165, |
| Loans and advances measured at amortised cost | 36,593,694 | 6,733,692 | 1,597,553 | 6,337,619 | 2,048, |
| Islamic financing and investment products measured at amortised cost | 4,433,943 | 339,820 | 616,033 | 798,420 | 355, |
| Other financial assets measured at amortised cost | 4,026,899 | 2,578,099 | 347,064 | 824,152 | 179, |
| Other assets | - | - | - | - | |
| Goodwill | - | - | - | - | |
| Investment properties | - | - | - | - | |
| Property and equipment | - | - | - | - | |
| Total assets | 63,590,949 | 14,218,676 | 5,569,850 | 8,129,359 | 2,798, |

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

**43 Risk management** (continued)

**Market risk management** (continued)

***Interest rate risk management*** (continued)

**Interest rate repricing analysis** (continued)

| 2015 | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Over year AED'00 |
|---|---|---|---|---|---|
| **Liabilities and equity** | | | | | |
| Deposits and balances due to banks | 5,482,557 | 308,487 | 253,757 | 379,712 | |
| Repurchase agreements with banks | - | 734,564 | - | - | |
| Customers' deposits | 19,116,841 | 6,900,445 | 4,187,829 | 3,018,212 | 201,13 |
| Islamic customers' deposits | 4,643,417 | 788,575 | 481,618 | 369,843 | 24,95 |
| Insurance and life assurance funds | - | - | - | - | |
| Other liabilities | - | - | - | - | |
| Medium-term loans | 110,190 | 298,479 | 516,000 | 3,181,187 | |
| Equity attributable to shareholders of the Parent | - | - | - | - | |
| Non-controlling interest | - | - | - | - | |
| Total liabilities and equity | 29,353,005 | 9,030,550 | 5,439,204 | 6,948,954 | 226,08 |
| On Balance Sheet gap | 34,237,944 | 5,188,126 | 130,646 | 1,180,405 | 2,572,40 |
| Off Balance Sheet gap | (313,990) | 211,605 | 98,150 | (9,730) | 13,9 |
| Cumulative interest rate sensitivity gap | 33,923,954 | 39,323,685 | 39,552,481 | 40,723,156 | 43,309,52 |

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements for the year ended 31 December 2015** (continued)

### 43 Risk management (continued)

**Market risk management** (continued)

***Interest rate risk management*** (continued)

Interest rate repricing analysis:

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Ov y AED' |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Assets | | | | | |
| Cash and balances with central banks | 7,261,036 | 500,000 | - | - | |
| Deposits and balances due from banks | 12,462,119 | 1,238,931 | 371,207 | 63,954 | 55, |
| Other financial assets measured at fair value | 797,157 | 537,155 | 312,463 | 368,112 | |
| Loans and advances measured at amortised cost | 42,354,487 | 4,662,372 | 520,499 | 3,857,439 | 669, |
| Islamic financing and investment products measured at amortised cost | 4,534,273 | 164,984 | 176,369 | 547,500 | 342, |
| Other financial assets measured at amortised cost | 3,807,347 | 2,517,584 | 210,391 | 922,614 | 34, |
| Other assets | - | - | - | - | |
| Goodwill | - | - | - | - | |
| Investment properties | - | - | - | - | |
| Property and equipment | - | - | - | - | |
| Total assets | 71,216,419 | 9,621,026 | 1,590,929 | 5,759,619 | 1,102, |

## MASHREQBANK PSC GROUP

## Notes to the consolidated financial statements for the year ended 31 December 2015 (continued)

### 43 Risk management (continued)

### Market risk management (continued)

*Interest rate risk management* (continued)

Interest rate repricing analysis (continued)

| 2014 | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Over 1 to 5 years AED'000 | Over 5 years AED'000 |
|---|---|---|---|---|---|
| Liabilities and equity | | | | | |
| Deposits and balances due to banks | 6,862,866 | 245,310 | 119,695 | - | - |
| Repurchase agreements with banks | 623,036 | - | - | - | - |
| Customers' deposits | 22,980,935 | 4,038,474 | 4,235,095 | 2,694,518 | 89,415 |
| Islamic customers' deposits | 2,041,155 | 743,321 | 760,416 | 61,264 | 5,740 |
| Insurance and life assurance funds | - | - | - | - | - |
| Other liabilities | - | - | - | - | - |
| Medium-term loans | 183,650 | 220,380 | 91,825 | 3,512,388 | - |
| Equity attributable to shareholders of the Parent | - | - | - | - | - |
| Non-controlling interest | - | - | - | - | - |
| Total liabilities and equity | 32,691,642 | 5,247,485 | 5,207,031 | 6,268,170 | 95,155 |
| On Balance Sheet gap | 38,524,777 | 4,373,541 | (3,616,102) | (508,551) | 1,007,316 |
| Off Balance Sheet gap | (341,278) | 30,628 | 92,193 | 16,544 | 201,913 |
| Cumulative interest rate sensitivity gap | 38,183,499 | 42,587,668 | 39,063,759 | 38,571,752 | 39,780,981 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Market risk management (continued)

*Currency risk management*

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored. The Group's exposures on 31 December are:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Net spot Position AED'000** | **Forward position AED'000** | **Total AED'000** | Net spot position AED'000 | Forward position AED'000 | Total AED'000 |
| U.S. Dollars | **12,182,344** | **(6,004,068)** | **6,178,276** | 12,323,646 | (4,060,028) | 8,263,618 |
| Qatari Riyals | **1,884,106** | **368,803** | **2,252,909** | 1,067,579 | (55,069) | 1,012,510 |
| Pound Sterling | **(377,285)** | **397,348** | **20,063** | (234,939) | 331,152 | 96,213 |
| Euro | **(3,076,294)** | **3,179,645** | **103,351** | (1,140,862) | 1,155,846 | 14,984 |
| Bahrain Dinar | **532,934** | **(5,245)** | **527,689** | 530,557 | (3,225) | 527,332 |
| Saudi Riyal | **(735,517)** | **841,538** | **106,021** | (522,310) | 523,879 | 1,569 |
| Japanese Yen | **(244,606)** | **210,342** | **(34,264)** | 31,720 | (59,564) | (27,844) |
| Swiss Francs | **(93,424)** | **92,691** | **(733)** | (366,538) | 368,275 | 1,737 |
| Kuwaiti Dinar | **91,587** | **(58,612)** | **32,975** | 53,444 | 149,472 | 202,916 |
| Chinese Yuan | **78,791** | **(78,815)** | **(24)** | 92,493 | (94,080) | (1,587) |
| Other | **395,864** | **191,643** | **587,507** | 433,992 | (341,025) | 92,967 |
| **Total** | **10,638,500** | **(864,730)** | **9,773,770** | 12,268,782 | (2,084,367) | 10,184,415 |

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated income statement or consolidated statement of comprehensive income.

### Liquidity risk management

Liquidity Risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III proposals, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**43 Risk management** (continued)

**Liquidity risk management** (continued)

Mashreq's Board of Directors ("BOD") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy. Among Mashreq's Board of Directors, Mr. Abdul Aziz Abdulla Al Ghurair, the Bank's Chief Executive Officer and Director, is chiefly responsible for the oversight of Liquidity management within the Bank.

Mashreqbank's Head Office (HO) and International Banking Group (IBG) Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In formulating these policies, ALCOs take into consideration the bank's set up (including foreign branches), key business lines, the breadth and diversity of markets, products, and jurisdictions in which it operates, and home and host regulatory requirements.ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCOs meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions of all branches in the jurisdictions in which the bank is active, and for outlining these clearly in the bank's liquidity policies.

The members of ALCO are the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, the Head of Risk Management, the Head of International Banking and the Head of Treasury & Capital Markets.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, the Euro Medium Term Notes program was launched in 2005 and, to date; this has outstanding balance of AED 2.27 billion (2014: AED 2.17 billion) [Note 20(a)] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014. The Bank raised a US$ 500 million syndicated loan through its key relationship Banks in July 2014.

The Central bank of UAE through its circular no. 33/2015 dated 27 May, 2015 announced new Regulations re Liquidty at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio ("ELAR") applicable from 1 July, 2015 as well as the intention to start the transition to the Basel III Liquidity standards from 1 January 2016. To manage liquidity risk tolerance, the Group uses various indicators including the regulatory ratios of Advances to Stable Resources ("ASRR") and the recently implemented ELAR. Other indicators include loans and advances to customers' deposits, liquid assets to total assets ratios, deposit concentration risk indicators, and limits for liquidity gap analysis. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

The Treasury function in the Group is responsible for managing liquidity and it follows strict guidelines for deployment of liquid assets within each liquidity bucket. Periodic stress tests are performed to ensure availability of funds during stressed situations.

Inter-bank borrowing lines and repurchase facilities with global banks and the Central Bank of U.A.E. are part of the contingency funding options maintained by the Treasury.

## MASHREQBANK PSC GROUP

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

### 43 Risk management (continued)

**Liquidity risk management** (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual repayment arran
liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

**Maturity profile:**

The maturity profile of assets, liabilities and equity as at 31 December 2015 were as follows:

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Ov 5 AE |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | 17,383,313 | 1,300,000 | 740,150 | |
| Deposits and balances due from banks | 10,828,896 | 2,452,057 | 1,436,148 | 2 |
| Other financial assets measured at fair value | 1,305,403 | 547,264 | 1,134,688 | 2 |
| Loans and advances measured at amortised cost | 19,273,866 | 4,766,025 | 3,704,998 | 16,3 |
| Islamic financing and investment products measured at amortised cost | 2,783,732 | 583,423 | 575,342 | 2,1 |
| Other financial assets measured at amortised cost | 498,459 | 238,192 | 704,942 | 3,5 |
| Other assets | 2,817,479 | 2,050,944 | 1,099,923 | 4 |
| Goodwill | - | - | - | |
| Investment properties | - | - | - | |
| Property and equipment | - | - | - | |
| Total assets | 54,891,148 | 11,937,905 | 9,396,191 | 23,0 |

## 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 | O A |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Deposits and balances due to banks | 6,457,209 | 319,613 | 250,006 | 2, |
| Repurchase agreements with banks | - | 734,564 | - | |
| Customers' deposits | 50,032,423 | 6,969,927 | 4,400,894 | 3, |
| Islamic customers' deposits | 6,726,415 | 788,658 | 481,618 | |
| Insurance and life assurance funds | - | - | 1,036,170 | |
| Other liabilities | 3,635,225 | 1,785,953 | 1,140,756 | |
| Medium-term loans | 110,190 | 298,479 | 516,000 | 3, |
| Equity attributable to shareholders of the Parent | - | - | - | |
| Non-controlling interest | - | - | - | |
| **Total liabilities and equity** | 66,961,462 | 10,897,194 | 7,825,444 | 9, |

**MASHREQBANK PSC GROUP**

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**43 Risk management** (continued)

**Liquidity risk management** (continued)

**Maturity profile:** (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2014 were as follows:

| | Within 3 months AED'000 | Over 3 to 6 months AED'000 | Over 6 to 12 months AED'000 | Ov 5 AE |
|---|---|---|---|---|
| Assets | | | | |
| Cash and balances with central banks | 14,638,138 | 500,000 | 21,120 | |
| Deposits and balances due from banks | 10,033,234 | 2,826,398 | 982,250 | 3 |
| Other financial assets measured at fair value | 672,539 | 410,754 | 310,061 | 5 |
| Loans and advances measured at amortised Cost | 18,885,925 | 3,744,449 | 3,077,645 | 16,7 |
| Islamic financing and investment products measured at amortised cost | 2,558,685 | 315,741 | 354,971 | 1,5 |
| Other financial assets measured at amortised cost | 763,736 | 76,015 | 218,654 | 3,5 |
| Other assets | 1,809,902 | 2,984,888 | 667,826 | 5 |
| Goodwill | - | - | - | |
| Investment properties | - | - | - | |
| Property and equipment | - | - | - | |
| Total assets | 49,362,159 | 10,858,245 | 5,632,527 | 23,2 |

## 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 5 yea AED'0 |
|---|---|---|---|---|
| Liabilities and equity | | | | |
| Deposits and balances due to banks | 7,857,386 | 247,452 | 119,695 | |
| Repurchase agreements with banks | - | - | 623,036 | |
| Customers' deposits | 51,560,850 | 4,697,942 | 4,240,352 | 2,715,9 |
| Islamic customers' deposits | 3,611,920 | 743,426 | 760,416 | 61,2 |
| Insurance and life assurance funds | - | - | 1,108,859 | 546,2 |
| Other liabilities | 3,144,034 | 812,598 | 935,053 | 674,3 |
| Medium-term loans | 183,650 | 220,380 | 91,825 | 3,512,3 |
| Equity attributable to shareholders of the Parent | - | - | - | |
| Non-controlling interest | - | - | - | |
| Total liabilities and equity | 66,357,840 | 6,721,798 | 7,879,236 | 7,510,2 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

### Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

**Fair value of financial instruments** (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

**31 December 2015**

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| *Financial assets measured at fair value* | | | | |
| **Other financial assets measured at FVTPL** | | | | |
| - Debt securities | 188,924 | 2,404,569 | 67,519 | 2,661,012 |
| - Equities | 16,548 | - | 508 | 17,056 |
| - Mutual and other funds | 261,935 | - | 327,807 | 589,742 |
| **Other financial assets measured at FVTOCI** | | | | |
| - Equities | 402,783 | - | 216,650 | 619,433 |
| - Mutual and other funds | 37,722 | - | - | 37,722 |
| **Total** | 907,912 | 2,404,569 | 612,484 | 3,924,965 |
| *Other assets* | | | | |
| **Positive fair value of derivatives** | 246,524 | 632,709 | - | 879,233 |
| *Other liabilities* | | | | |
| **Negative fair value of derivatives** | 251,518 | 621,089 | - | 872,607 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

**Fair value of financial instruments** (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

31 December 2014

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| *Financial assets measured at fair value* | | | | |
| Other financial assets measured at FVTPL | | | | |
| - Debt securities | 342,969 | 1,305,177 | 23,185 | 1,671,331 |
| - Equities | 7,478 | - | 551 | 8,029 |
| - Mutual and other funds | 720,768 | - | 19,421 | 740,189 |
| Other financial assets measured at FVTOCI | | | | |
| - Equities | 511,475 | 26,591 | 214,647 | 752,713 |
| - Mutual and other funds | 37,072 | - | - | 37,072 |
| Total | 1,619,762 | 1,331,768 | 257,804 | 3,209,334 |
| *Other assets* | | | | |
| Positive fair value of derivatives | 300,772 | 772,665 | - | 1,073,437 |
| *Other liabilities* | | | | |
| Negative fair value of derivatives | 306,367 | 769,565 | - | 1,075,932 |

There were no transfers between Level 1 and 2 during the years ended 31 December 2015 and 2014.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 43 Risk management (continued)

**Fair value of financial instruments** (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI

| | **2015** **AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **214,647** | 358,448 |
| Purchases | **37,350** | 1,006 |
| Cost of sales | **(21,397)** | (14,182) |
| Transfers to level 1 | **-** | (83,656) |
| Change in fair value | **(13,950)** | (46,969) |
| **At 31 December** | **216,650** | 214,647 |

The investments classified under Level 3 category have been fair-valued based on information available for each investment. Based on the information available the valuation has been carried on net asset value or valuation provided by the portfolio managers.

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

| | **Carrying amount** | **Fair value** | | | |
|---|---|---|---|---|---|
| **2015** | **AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | **7,993,072** | **6,232,112** | **-** | **1,687,966** | **7,920,078** |
| 2014 | | | | | |
| *Financial assets:* | | | | | |
| Other financial assets measured at amortised cost | 7,579,700 | 5,667,770 | 54,255 | 1,894,466 | 7,616,491 |

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

**43 Risk management** (continued)

Fair value of financial instruments measured at amortised cost (continued)

| | Carrying | Fair value | | | |
|---|---|---|---|---|---|
| | Amount | Level 1 | Level 2 | Level 3 | Total |
| **2015** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| *Financial liabilities* | | | | | |
| Medium-term notes | **2,269,356** | **1,434,794** | **-** | **811,281** | **2,246,075** |
| 2014 | | | | | |
| *Financial liabilities* | | | | | |
| Medium-term notes | 2,171,743 | 1,707,766 | - | 434,861 | 2,142,627 |

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2015 and 2014:

| | Reflected in consolidated statement of income | | Reflected in consolidated statement of comprehensive income | |
|---|---|---|---|---|
| | Favourable change | Unfavourable change | Favourable change | Unfavourable change |
| **2015** | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| **Other financial assets measured at fair value** | **326,781** | **(326,781)** | **65,715** | **(65,715)** |
| 2014 | | | | |
| Other financial assets measured at fair value | 241,954 | (241,954) | 78,978 | (78,978) |

Majority of the derivatives financial instruments are back to back; therefore, any change to the fair value of the derivatives resulting from price inputs chances will have insignificant impact on the consolidated income statement or consolidated statement of comprehensive income.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2015** (continued)

## 44 Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of 31 December 2015 of AED 1 million (2014: AED 3 million).

## 45 Fund management

Makaseb Funds Company BSC and Mashreq Capital (DIFC) Limited (Note 36) manage a number of funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

## 46 Foreign restricted assets

Net assets equivalent to AED 91 million as at 31 December 2015 (2014: AED 85 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

## 47 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2015 were approved by the Board of Directors and authorised for issue on 27 January 2016.

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