

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 the 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 A- by S&P Global Ratings Europe Limited ("**S&P**"), and the Programme has been rated A by Fitch, (P)Baa1 by Moody's and A- 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 1 October 2019) on the European Securities and Markets Authority ("**ESMA**") website at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>. 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 for the purposes of Article 8 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") for all Notes issued under the Programme other than Unlisted Notes.

This base prospectus (the "**Base Prospectus**") has been approved by the CSSF, as competent authority in Luxembourg under the Prospectus Regulation, as a base prospectus issued in compliance with the Prospectus Regulation for the purpose of giving information with regard to the issue of the Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. The CSSF has only approved the Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation with respect to the Notes which will be admitted to listing on the official list and trading on the regulated market of the Luxembourg Stock Exchange and admission to trading on the professional segment of the Luxembourg Stock Exchange's regulated market. Such an approval should not be considered as an endorsement of the Bank nor as an endorsement of the quality of any Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in such Notes. This Base Prospectus is valid for a period of twelve months from the date of approval in relation to the Notes which are to be admitted to listing on an official list and to trading on the regulated market in the EEA. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid. Applications have been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange and admission to trading on the professional segment of the Luxembourg Stock Exchange's regulated market. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments. 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 Directive 2014/65/EU (as amended, "**MiFID II**") 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 or (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 6(4) of the Luxembourg law dated 16 July 2019 on prospectuses for securities (the "**Luxembourg Prospectus Law**").

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*".

Arranger

BofA Securities

Dealers

**BNP PARIBAS
Citigroup
Deutsche Bank
Mashreqbank psc
Nomura
UBS Investment Bank**

**BofA Securities
Commerzbank
J.P. Morgan
Mizuho Securities
Société Générale Corporate & Investment Banking**

The date of this Base Prospectus is 28 November 2019.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Regulation 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 Merrill Lynch International (the "**Arranger**") or any Dealer to publish a prospectus pursuant to Article 3 or Article 5 of the Prospectus Regulation or a supplement to a prospectus pursuant to Article 23 of the Prospectus Regulation in relation to such offer. Neither the Bank, the Arranger nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank, the Arranger 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, to the best of its knowledge, the information contained in this Base Prospectus is, in accordance with the facts and the Base Prospectus makes no omission of anything likely to affect the import of such information.

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 "*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.

The accuracy or completeness of the information contained in this Base Prospectus has not been independently verified by the Arranger 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 Arranger, 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 Arranger 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 Arranger 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 Bank 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, the Arranger 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, the Arranger 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, the Arranger or any Dealer to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor any applicable Final Terms (or Pricing Supplement, in the case of Unlisted Notes) 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 Arranger 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 Arranger 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 Arranger 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, Singapore, 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 depository or common depository 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 may wish to consider, either on its own or with the help of its financial and professional advisers, whether it:

- (a) has 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) has 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) has 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) understands thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- (e) is able to evaluate 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 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 Regulation, 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 contains certain forward-looking statements. The words "anticipate", "believe", "expect", "intend", "targets", "aims", "estimate", "project", "will", "would", "may", "could", "continue" and

similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the financial position, business strategy, management plans and objectives for future operations of the Bank are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements.

The requirement to publish a base prospectus under the Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market for the purposes of MiFID II in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 4 of the Prospectus Regulation. References in this Base Prospectus to "Unlisted Notes" are to Notes issued by the Bank for which no base prospectus is required to be published under the Prospectus Regulation. The Unlisted Notes do not form part of this Base Prospectus for the purposes of the Prospectus Regulation and 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 Rules on the Offer of Securities and Continuing Obligations 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 the Notes should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective investor 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, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE APPLICABLE FINAL TERMS 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 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 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 **MiFID II**; or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**Insurance Distribution Directive**"), 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 Regulation. 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 Arranger 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.

NOTIFICATION UNDER SECTION 309B(1)I OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

The applicable Final Terms (or Pricing Supplement, as applicable) in respect of any Tranche of Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**"). The Bank will make a determination in relation to each issue about the classification of the Notes being offered for the purposes of section 309B(1)(a). Any such legend included on the applicable Final Terms (or Pricing Supplement, as applicable) will constitute notice to "relevant persons" for the purposes of section 309B(1)(c) of the SFA.

THE CREDIT RATING AGENCIES

Each of Fitch, Moody's and S&P has rated Mashreqbank, and Moody's has also rated the UAE.

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 Arranger 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). As at the date of this Base Prospectus, the administrator of LIBOR and the administrator of EURIBOR each 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 "**Benchmark Regulation**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation 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
OVERVIEW OF THE PROGRAMME	2
RISK FACTORS	6
FORM OF THE NOTES	23
TERMS AND CONDITIONS OF THE NOTES	27
USE OF PROCEEDS	56
PRESENTATION OF FINANCIAL INFORMATION	57
SELECTED FINANCIAL INFORMATION	58
ALTERNATIVE PERFORMANCE MEASURES	59
DESCRIPTION OF THE BANK	61
MANAGEMENT AND EMPLOYEES	82
THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION	87
TAXATION	97
SUBSCRIPTION AND SALE	100
GENERAL INFORMATION	106
ANNEX A: FORM OF FINAL TERMS	109
ANNEX B: FORM OF PRICING SUPPLEMENT	117
ANNEX C: INDEX TO FINANCIAL STATEMENTS	125

OVERVIEW OF THE PROGRAMME

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No. 2019/980. 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. In accordance with the provisions of the Prospectus Regulation, 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".

Issuer:	Mashreqbank psc, a public shareholding company incorporated with limited liability in the United Arab Emirates.
Issuer LEI:	5493000SA3K24EQKA103
Description:	Euro Medium Term Note Programme.
Arranger:	Merrill Lynch International.
Dealers:	BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreqbank psc, Merrill Lynch International, Mizuho International plc, Nomura International plc, Société Générale, UBS AG London Branch 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 " <i>Risk Factors</i> ".
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 will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the restrictions applicable at the date of this Base Prospectus.
Redenomination:	The relevant Final Terms or, as the case may be, Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 20 (<i>Redenomination, Renominalisation and Reconverting</i>).
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. 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 or, as the case may be, Pricing Supplement. 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 or, as the case may be, Pricing Supplement, 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 or, as the case may be, Pricing Supplement.
Redemption:	The applicable Final Terms or (in the case of Unlisted Notes) 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 Regulation 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 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 or, as the case may be, Pricing Supplement.

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.

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 6(4) of the Luxembourg Prospectus 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 MiFID II. 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.

Unlisted Notes may also be issued.

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 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 or, as the case may be, Pricing Supplement.

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.

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 Regulation), 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, Singapore, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre and the Kingdom of Saudi Arabia 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.

Use of proceeds:

The net proceeds from each issue of Notes will be used for the general financing purposes of the Bank. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms (or Pricing Supplement, as applicable).

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 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 Arranger 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.

Risks related to the Bank's business activities and industry

Loan Growth

The Bank's gross loans and advances, including Islamic financing, (before allowances) increased during 2019 and were AED 76,250 million as at 30 September 2019 compared to AED 72,889 million as at 31 December 2018 and AED 65,920 million as at 31 December 2017. The increase in the gross loan portfolio over the period was in line with the positive development of economic conditions in the regions in which the Bank operates.

The Bank's increased credit exposure continues to be monitored by the Bank's management to accurately assess credit quality and develop the Bank's credit risk management policies and procedures.

The Bank attracts and retains a significant number of qualified personnel and trains new personnel appropriately to monitor asset quality and 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 towards the Bank's expanding customer profiles, require credit assessment skills and input from personnel, as well as well-developed and established 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 successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the business, operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

Principal Shareholder

As at 30 September 2019, approximately 88.07 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 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 2019, the Bank's 15 largest corporate depositors accounted for 29.4 per cent. of total amounts owed to customers compared to 30.4 per cent. as at 31 December 2018. 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 at least once a month 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 fund operations adequately. A dislocated credit environment also compounds the risk that the Bank will not be able to access funds at favourable rates. These 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 reduced access to 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 further 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 to sufficiently 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, operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

Credit Default Risk

Credit risk is the risk that a customer or counterparty is unable or unwilling to meet its obligations in accordance with agreed terms and in doing so 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, 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 2019, the Bank's 11 largest loans and advances (including Islamic financing) accounted for 25.9 per cent. of gross loans and advances, including Islamic financing, compared to 26.9 per cent. as at 31 December 2018. 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 2018, the Bank's assets and liabilities stood at AED 77,304 million and AED 64,175 million respectively in the UAE, AED 24,015 million and AED 21,496 million respectively in the other Middle Eastern countries and AED 38,613 million and AED 33,495 million respectively outside the region.

Credit risk arises from adverse changes in the credit quality and recoverability of loans and advances due from counterparties and is inherent in a wide range of the Bank's businesses. Credit risk 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 sector. The ratio of the Bank's non-performing loans (including Islamic financing and net of interest / other income in suspense) to gross loans (including Islamic financing) increased from 2.9 per cent. for the year ended 31 December 2017 to 3.1 per cent. for the year ended 31 December 2018, and has further increased to 3.4 per cent. as at 30 September 2019. The Bank's loan-loss coverage level decreased from 137.2 per cent. for the year ended 31 December 2018 to 130.9 per cent. as at 30 September 2019.

Real Estate Exposure

Real estate exposures of the Bank in the UAE represent 25.7 per cent of the total deposits in the UAE and combined exposures to the real estate and construction sector represent 26.7 per cent. of the Bank's total gross loans and advances, including Islamic financing, as at 30 September 2019, while total funded real estate and construction exposure stood at AED 20.4 billion.

With supply expanding, prices have eased considerably in recent years due to the high levels of construction in the lead up to the Expo 2020. It is anticipated that Expo 2020 in Dubai 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 an adverse effect on the financial condition or results of operations of the Bank.

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 2018, the Bank had AED 56,351 million in such contingent liabilities.

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, 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, the Bank is exposed to limited structural cross-currency foreign currency risk. However, the Bank currently maintains a long U.S. dollar position and a position in Qatari Riyals within limits approved by the Bank's ALCO.

Dependence on Key Personnel

The Bank's success in growing its business depends, 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 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 replacements 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.

The Bank's business is dependent on its information and technology systems which are subject to potential cyber-attack

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment to manage. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. Failure by the Bank or the Bank's customers to adequately manage cyber-security risk and continually update current processes in response to new threats could disrupt the Bank's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Bank's reputation and/or brands, which could have a material adverse effect on the Bank's business, operations and financial condition.

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 risks in the context of its existing business, as the Bank's business continues to grow and develop, the Bank's risk profile is likely to change. Management continually assesses the Bank's 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, operations, financial condition and prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

Operational Risk Management

Operational risk is the risk of loss, whether direct or indirect, 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-Assessments ("RCSA") to ensure that operational risk is appropriately identified and managed with effective controls. Despite having 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 and corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in 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 22.5 per cent. of the investment portfolio as at 30 September 2019. 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.

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 is 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 significant 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 Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the People's Bank of China ("**PboC**") in 2018, 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 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 PboC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, 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, although PboC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited 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 that 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 also decline.

Investment in the RMB Notes is subject to currency risk

If the Bank is unable to or it is impracticable for it to satisfy its obligation to pay interest and principal on the RMB Notes as a result of an 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 Clearstream Banking, S.A. 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 PRC sourced gains derived by such non-PRC resident enterprise from the transfer of Renminbi Notes but its implementation rules have reduced the EIT rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the PRC sourced 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 thus become subject to 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 enterprise or individual resident Holders which are non-PRC residents 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 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 interrelationship 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 the Organization of the Petroleum Exporting Countries ("OPEC") data, as at 31 December 2018, the UAE had approximately 8.2 percent of proven global crude oil reserves which generated 29.5 percent of its nominal GDP (according to the OPEC Annual Statistical Bulletin for 2018). 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.\$137.0 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 13 November 2019, the average price of the OPEC reference basket was U.S.\$62.48 per barrel (*source*: OPEC website www.opec.org). 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:

- Geopolitical and economic 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 of 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. However, investors should be aware that with effect from 1 January 2018, certain of the Gulf Cooperation Council (the "GCC") states (including the UAE) have implemented a VAT regime at a rate of 5 per cent., with the remaining GCC states expected to implement VAT in 2021.

The UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No. 8 of 2017) and, on 28 November 2017, the UAE Ministry of Finance published accompanying VAT implementing regulations.

The implementation of any future corporation tax (or any other analogous tax) regime may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects, which in turn could affect the Bank's ability to perform its obligations in respect of any Notes issued under the Programme. With respect to the introduction of VAT in the UAE, the Bank's costs have increased and its future profitability could be negatively affected, in comparison to the previous tax-free environment.

As at the date of this Base Prospectus, the Bank is not subject to corporation tax (or any other analogous tax) on its earnings within the UAE.

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 gradual strengthening in global crude oil prices through 2018 (according to the OPEC website) the average price of the OPEC reference basket was U.S.\$62.48 per barrel as at 13 November 2019, 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. 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 a 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 Libya, Syria and the Republic of Yemen. 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.

Also since 2011, the prospect of a nuclear Iran has been at the centre of international geopolitical discourse. The comprehensive agreement between the U.N. Security Council's five permanent members plus Germany and Iran that was reached in July 2015 (the "**Joint Comprehensive Plan of Action**") conditions international economic sanctions relief, mainly United States and E.U. sanctions, on Iranian nuclear capabilities reduction and supervision by the International Atomic Energy Agency (the "**IAEA**"). After the IAEA confirmed that Iran met the relevant requirements of the Joint Comprehensive Plan of Action, certain economic sanctions were lifted on 16 January 2016 with a view to improving Iran's position in the international community. However, certain other sanctions remain in place and the United States imposed certain additional sanctions on Iran in July 2017 relating to Iran's ballistic missile programme, human rights matters, arms sales and Iran's Revolutionary Guard Corps. On 8 May 2018, the US announced that it would withdraw from the Joint Comprehensive Plan of Action and reinstate sanctions against Iran. After a wind down period of 90 days, the first wave of sanctions was reinstated on 7 August 2018. The remaining sanctions were reinstated following a wind down period of 180 days on 5 November 2018. Any continuation or increase in international or regional tensions regarding Iran could have a destabilising impact on the Gulf 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, 51.5 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.

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'.

Risk Factors relating to the legal and regulatory environment

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 Central Bank published the "Regulations re Capital Adequacy" (the "**February 2017 Regulations**") in the Official Gazette issue 612, which were 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 the Basel III Reforms, whilst implementing the measures contained in the May 2016 consultation document published by the Central Bank, entitled "Capital Adequacy Regulation" (the "**Consultation Document**"). The February 2017 Regulations are supported by accompanying standards (the "**Accompanying Standards**") which were published by the Central Bank on 17 January 2018 in its Circular No. 28/2018 entitled "Standard re Capital Supply" and are expressed to be effective from 31 December 2017. In addition, in March 2018 the Central Bank published its "Standard re Tier Capital Instruments" (the "**Standard re Tier Capital Instruments**") and together with the Accompanying Standards, the "**Capital Standards**") (and accompanying guidance), expressed to be effective from 31 March 2018. The Capital Standards elaborate on the supervisory expectations of the Central Bank, as set out in the February 2017 Regulations, with respect to the relevant Basel III capital adequacy requirements and how they will be applied by the Central Bank to banks in the UAE. For example, banks which are classified as D-SIBs by the Central Bank will be required to hold additional capital buffers as notified to them by the 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 Central Bank.

Moreover, the Central Bank's Standard Re Tier Capital Instruments requires that a periodic distribution on any additional tier 1 instrument should be cancelled if the relevant UAE bank does not have sufficient "Distributable Items" on the relevant date for payment of (i) such periodic distribution and (ii) certain other payment obligations. However, if the Central Bank's ultimate implementation of any additional counter-cyclical or systemically important buffers is not in accordance with the provisions set out in the February 2017 Regulations and the Capital Standards, the regulatory burden on UAE financial institutions such as the Bank may further increase which could adversely impact the Bank's business. In addition, if further counter-cyclical or systemically important buffers are implemented by the Central Bank, it is possible that UAE financial institutions, including the Bank, will be required to increase the levels of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital (together, "**Regulatory Capital**") that they hold on their balance sheets.

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.

Furthermore, to the extent that enforcement of remedies must be pursued in the UAE, it should be borne in mind that there is limited scope for self-help remedies under UAE law and that generally enforcement of remedies in the UAE must be pursued through the courts.

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. Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that the Bank has, or would at the relevant time have, assets in the United Kingdom against which such arbitral award or judgment could be enforced.

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. This may mean that the UAE courts may seek to interpret English law governed documents as if they were governed by UAE law and there can therefore be no certainty that in those circumstances the UAE courts would give effect to such documents in the same manner as the parties may intend.

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.

How the New York Convention provisions would be interpreted and applied by the UAE courts in practice 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. This is reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force cross border. Although there are examples of foreign arbitral awards being enforced in the UAE under the New York Convention, there are other cases where the enforcement of foreign arbitral awards have been refused, with, for example, the relevant judge confusing the requirements for the enforcement of domestic awards with the requirements for the enforcement of foreign awards. Article 86 of Cabinet Resolution No. (57) of 2018 Concerning the Executive Regulations of the Civil Procedure Law ("**Cabinet Resolution 57 of 2018**") states that Article 85 of Cabinet Resolution 57 of 2018 applies to foreign arbitration awards, although Article 88 states that Articles 85 to 87 do not prejudice the provision of treaties and agreements entered into by the UAE with other States (which includes the New York Convention). Under Article 85 of Cabinet Resolution 57 of 2018, a judgment or order of a non-UAE court may be enforced by the Dubai Courts without further consideration of the merits of the case if, amongst other considerations, there is reciprocity of enforcement between the UAE and the country in which the non-UAE judgment or order has been granted. If the UAE Courts decide to apply Article 86 of Cabinet Resolution 57 of 2018 in any action to enforce a foreign arbitration award in the UAE, it is likely that a foreign arbitration award would be refused enforcement.

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 perform its obligations under the Programme and, in turn, may adversely affect the Bank's ability to make payments to Noteholders. There is little precedent to predict how claims by or on behalf of the Noteholders against the Bank upon its insolvency would be resolved, and therefore there can be no assurance that Noteholders will receive payment of their claims in full or at all in these circumstances.

Risk Factors relating to the nature of the Notes

Notes subject to Optional Redemption by the Bank

The Bank may issue Notes which entitle the Bank to redeem such Notes prior to their maturity date at its option and at a price which may be less than the current market price of those Notes. 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.

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future – including the potential phasing-out of LIBOR after 2021.

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future – including the potential phasing-out of LIBOR after 2021.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rates or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

The Benchmark Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds has been applicable since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. The Benchmark Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR or any other such benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks."

As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it does not intend to continue to persuade or compel panel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and, on 12 July 2018, announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation. Such announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021.

At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for LIBOR-linked securities. The potential elimination of benchmarks, such as LIBOR, the establishment of alternative reference rates or changes in the manner of administration of a benchmark could also require

adjustments to the terms of benchmark-linked securities and may result in other consequences, such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form.

The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(g) (*Benchmark Replacement*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

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 may be subject to early redemption for tax reasons

Pursuant to Condition 9(b) (*Redemption for tax reasons*), the Bank may, at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as not being applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Notes at their Early Redemption Amount.

Any such redemption of the Notes is subject to the requirements set out in Conditions 9(b) (*Redemption for tax reasons*).

There is no assurance that the holders of the Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Notes. During any period when the Issuer may redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount (as defined in the Conditions) payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Subordinated Notes may be subject to early redemption for regulatory reasons

Pursuant to Condition 9(f) (*Regulatory Redemption Event*), on the occurrence of a Regulatory Redemption Event (as defined in the Conditions), the Bank shall, at any time on any Interest Payment Date having given not less than 15 nor more than 30 days' prior notice to Noteholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Subordinated Notes at their Make Whole Redemption Amount.

There is no assurance that the holders of the Subordinated Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Subordinated Notes. During any period when the Bank redeems the Subordinated Notes, the market value of the Subordinated Notes generally will not rise substantially above the Regulatory Redemption Amount payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

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 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.

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 MiFID II (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.

Noteholder Meetings; Modification

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, Noteholders 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 Regulation 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 Fitch at A, Moody's at Baal and S&P at A-. 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.

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 §1.163-5I(2)(i)I (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 §1.163-5I(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 or, as the case may be, Pricing Supplement 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 or, as the case may be, Pricing Supplement.

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 an overview of certain of those provisions:

Payments: All payments in respect of the Global Note 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 a day on which banks and foreign exchange markets are open for business in the relevant place of presentation and if the currency of payment is euro, any day which is a TARGET Settlement Day; or, if the currency of payment is not euro, any day which is a day on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency.

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 MiFID II 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 Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"), 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 28 November 2019 (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 28 November 2019 (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 Regulation, 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;

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Bank) or the Bank (as applicable), determines should be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable), as a result of the replacement of the relevant Reference Rate with the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable), and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines is recognised or acknowledged as being in customary market usage for the purposes of determining floating rates of interest in respect of bonds denominated in the Specified Currency, where such rate has been replaced by such Successor Rate or Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser in its discretion (in consultation with the Bank) or the Bank in its discretion (as applicable) determines (acting in good faith) to be appropriate;

"**Alternative Reference Rate**" means the reference rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines has replaced the relevant Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of bonds denominated in the Specified Currency or, if the Independent Adviser or the Bank (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Bank (as applicable) determines, each in its own discretion, acting in good faith, is most comparable to the relevant Reference Rate (as applicable);

"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;

"Benchmark Event" means:

- (i) the relevant Reference Rate (as applicable) has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) a public statement by the administrator of the relevant Reference Rate (as applicable) that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that such Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or
- (v) it has or will become unlawful for the Calculation Agent or the Bank to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable);

"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 (b) 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:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" 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 D₁ is greater than 29, in which case D₂ 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:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day inducted in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" 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 D₂ 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:

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

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" 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 D₁ will be 30; and

"D₂" 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 D₂ 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;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Bank at its own expense;

"**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 Regulation" means Regulation (EU) 2017/1129;

"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;

"Relevant Nominating Body" means, in respect of a reference rate:

- (i) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, or any other central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, (d) the International Swaps and Derivatives Association, Inc. or any part thereof, or I the Financial Stability Board or any part thereof; and

"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;

"Successor Rate" means the reference rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines is a successor to or replacement of the relevant Reference Rate (for the avoidance of doubt, whether or not such Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body;

"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 Regulation; 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 an 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 Regulation 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 Bank shall determine such rate at such time and by reference to such sources as it determines appropriate for such purposes;

- (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;
 - (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; and
 - (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) **Benchmark replacement:** Notwithstanding the provisions above in this Condition 7, if the Bank (in consultation, to the extent practicable, with the Calculation Agent) determines that a Benchmark Event has occurred or considers that there may be a Successor Rate, in either case, when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to a Reference Rate, then the following provisions shall apply:
 - (i) the Bank shall use reasonable endeavours to appoint an Independent Adviser to determine a Successor Rate or, alternatively, if the Independent Adviser determines that there is no Successor Rate, an Alternative Reference Rate no later than 3 Business Days prior to the Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(g));
 - (ii) if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date in accordance with subparagraph (i) above, then the Bank (in consultation, to the extent practicable, with the Calculation Agent and acting in good faith) may determine a Successor Rate or, if the Bank determines that there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(g)); provided, however, that if this subparagraph (ii) applies and the Bank is unable or unwilling to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Date relating to the next succeeding Interest Period (as applicable) in accordance with this subparagraph (ii), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of a preceding Interest Period (which may be the Initial Rate of Interest) (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period for which the Rate of Interest was determined, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period);

- (iii) if a Successor Rate or an Alternative Reference Rate is determined in accordance with the preceding provisions, such Successor Rate or Alternative Reference Rate (as applicable) shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 7(g));
- (iv) if the Independent Adviser (in consultation with the Bank) or (if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine whether an Adjustment Spread should be applied) the Bank determines that an Adjustment Spread should be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Rate or Alternative Reference Rate (as applicable). If the Independent Adviser or the Bank (as applicable) is unable to determine, prior to the Interest Determination Date relating to the next succeeding Interest Period, the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;
- (v) if the Independent Adviser or the Bank (as the case may be) determines a Successor Rate or an Alternative Reference Rate or, in each case, any Adjustment Spread, in accordance with the above provisions, the Independent Adviser or the Bank may also, following consultation, to the extent practicable, with the Calculation Agent, specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, Interest Payment Dates and/or the definition of Reference Rate or Adjustment Spread applicable to the Notes (and in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(g)). Subject as provided in the Trust Deed, the Trustee shall, at the direction and expense of the Bank, use its reasonable endeavours to effect such consequential amendments to the Trust Deed, the Agency Agreement and these Terms and Conditions as may be required in order to give effect to this Condition 7(g) and the Trustee shall not be liable to any party for any consequences thereof (provided, however, that the Trustee shall not be obliged to agree to any such consequential amendments if the same would, in the sole opinion of the Trustee, impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce, or amend its rights and/or the protective provisions afforded to it). An Independent Adviser appointed pursuant to this Condition 7(g) shall act in good faith and (in the absence of bad faith, gross negligence and wilful misconduct) shall have no liability whatsoever to the Bank, the Trustee, the Agent, the Calculation Agent or Noteholders for any determination made by it or for any advice given to the Bank in connection with any determination made by the Bank pursuant to this Condition 7(g). No Noteholder consent shall be required in connection with effecting the Successor Rate or the Alternative Reference Rate (as applicable), any Adjustment Spread or such other changes, including for the execution of any documents, amendments or other steps by the Bank, Trustee or Agent (if required); and
- (vi) the Bank shall promptly following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread give notice thereof and of any changes pursuant to subparagraph (v) above to the Trustee, the Agent and the Noteholders. No later than notifying the Trustee of the same, the Bank shall deliver to the Trustee a certificate signed by two authorised signatories of the Bank confirming (I) that a Benchmark Event has occurred or that there is a Successor Rate, (II) the Successor Rate or Alternative Reference Rate (as applicable), (III) where applicable, any Adjustment Spread and (IV) where applicable, the terms of any changes pursuant to subparagraph (v) above.
- (h) **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.

- (i) **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 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 an 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 (e) 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. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms (or Pricing Supplement, as applicable).

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The historical financial statements relating to the Bank included in this Prospectus are:

- a) the interim unaudited condensed consolidated financial information as of and for the nine months ended 30 September 2019 (the "**Q3 2019 Interim Financial Statements**");
- b) the audited consolidated annual financial statements as of and for the financial year ended 31 December 2018 (the "**2018 Financial Statements**"); and
- c) the audited consolidated financial statements as of and for the financial year ended 31 December 2017 (the "**2017 Financial Statements**" and together with the 2018 Financial Statements the "**Annual Financial Statements**").

The above historical financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**").

The Group's financial year ends on 31 December and references in this document to a "financial year" are to the twelve month period ended on 31 December of the year referred to.

The Group publishes its financial statements in UAE dirham.

Independent Auditors

The 2018 Financial Statements have been audited by PricewaterhouseCoopers – Dubai branch ("**PwC**"), without qualification, in accordance with International Standards on Auditing.

The 2017 Financial Statements have been audited by Deloitte & Touche (M.E.) ("**Deloitte**"), without qualification, in accordance with International Standards on Auditing.

The Q3 2019 Interim Financial Statements have been reviewed by PwC in accordance with the International Standard of Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" ("**ISRE 2410**"), without qualification.

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 2018 and 31 December 2017 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 2018 and 30 September 2019 in each case prepared in accordance with International Financial Reporting Standards ("IFRS").

	As at and for the nine months ended 30 September 2019	As at and for the nine months ended 30 September 2018	As at and for the year ended 31 December 2018	As at and for the year ended 31 December 2018	As at and for the year ended 31 December 2017	As at and for the year ended 31 December 2017
	(in AED Millions)		(in AED Millions)	(in U.S.\$ Millions)	(in AED Millions)	(in U.S.\$ Millions)
Selected balance sheet data:						
Cash and balances with central banks	16,847	17,189	20,148	5,485	16,899	4,601
Deposits and balances due from banks.....	26,853	21,902	23,009	6,264	20,135	5,482
Loans and advances (net)	57,940	57,479	56,353	15,343	53,394	14,537
Islamic financing and investment products measured at amortised cost.....	14,231	11,874	12,916	3,517	9,339	2,543
Investments (net) ⁽¹⁾	14,246	14,868	13,909	3,787	14,682	3,997
Total assets.....	146,874	137,446	139,932	38,097	125,188	34,083
Deposits and balances due to banks.	9,231	9,094	9,060	2,467	9,313	2,536
Customers' deposits ⁽²⁾	84,109	82,233	83,219	22,657	76,061	20,708
Total equity	21,912	20,587	20,766	5,654	21,126	5,752
Selected income statement data:						
Net interest income and income from Islamic products net of distribution to depositors.....	2,748	2,792	3,643	992	3,579	974
Net fee and commission income.....	1,038	1,063	1,413	385	1,558	424
Net investment income.....	111	25	27	7	107	29
Other income, net	630	715	855	233	772	210
General and administrative expenses	(1,994)	(1,947)	(2,618)	(713)	(2,361)	(643)
Profit for the year before non-controlling interests	1,812	1,782	2,065	562	2,090	569
Profits attributable to equity holders of the parent.....	1,757	1,748	2,060	561	2,052	559
Selected ratios (in per cent.):						
Return on average assets⁽³⁾.....	1.78	1.90	1.66	1.66	1.75	1.75
Return on average equity⁽⁴⁾.....	11.33	11.57	10.17	10.17	10.49	10.49
Net loans to customer deposit ratio	85.8	84.3	83.2	83.2	82.5	82.5
Equity to asset ratio.....	14.92	14.98	14.84	14.84	16.88	16.88

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.

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.	Total 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) excluding customer acceptances and positive fair value of derivatives.
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 the 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 2019, 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, operated a network of 31 branches in the UAE, 23 international branches (twelve 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 2019.

The Bank also operated 14 subsidiaries (eleven in the UAE, two in the Kingdom of Bahrain and one in the Cayman Islands), as at 30 September 2019, 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's operating income, decreased slightly from AED 6,016 million for the year ended 31 December 2017 to AED 5,938 million for the year ended 31 December 2018, corresponding to a decrease of 1.3 per cent. The Bank's total assets, have increased from AED 125,188 million as at 31 December 2017 to AED 139,932 million as at 31 December 2018, representing an annual growth rate of 11.8 per cent. The Bank's total assets increased during the first nine months of 2019 and, as at 30 September 2019, were AED 146,874 million corresponding to a growth rate of 5 per cent.

The Bank's total loans and advances to customers including Islamic financing, (net of impairment allowances) as at 30 September 2019 were AED 72,170 million, compared to AED 69,270 million as at 31 December 2018 and AED 62,734 million as at 31 December 2017. The Bank's customer deposits as at 30 September 2019 were AED 84,109 million, compared to AED 83,219 million as at 31 December 2018 and AED 76,061 million as at 31 December 2017.

As at 30 September 2019, approximately 88.07 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. Given below are major shareholders of the Bank as of 30 September 2019:

- Saif Al Ghurair Investment Company LLC – 39.47 per cent. of the Bank's share capital;
- Abdulla Ahmed Al Ghurair Investment Co. – 31.10 per cent. of the Bank's share capital; and
- Massar Investments LLC – 12.75 per cent. of the Bank's share capital.

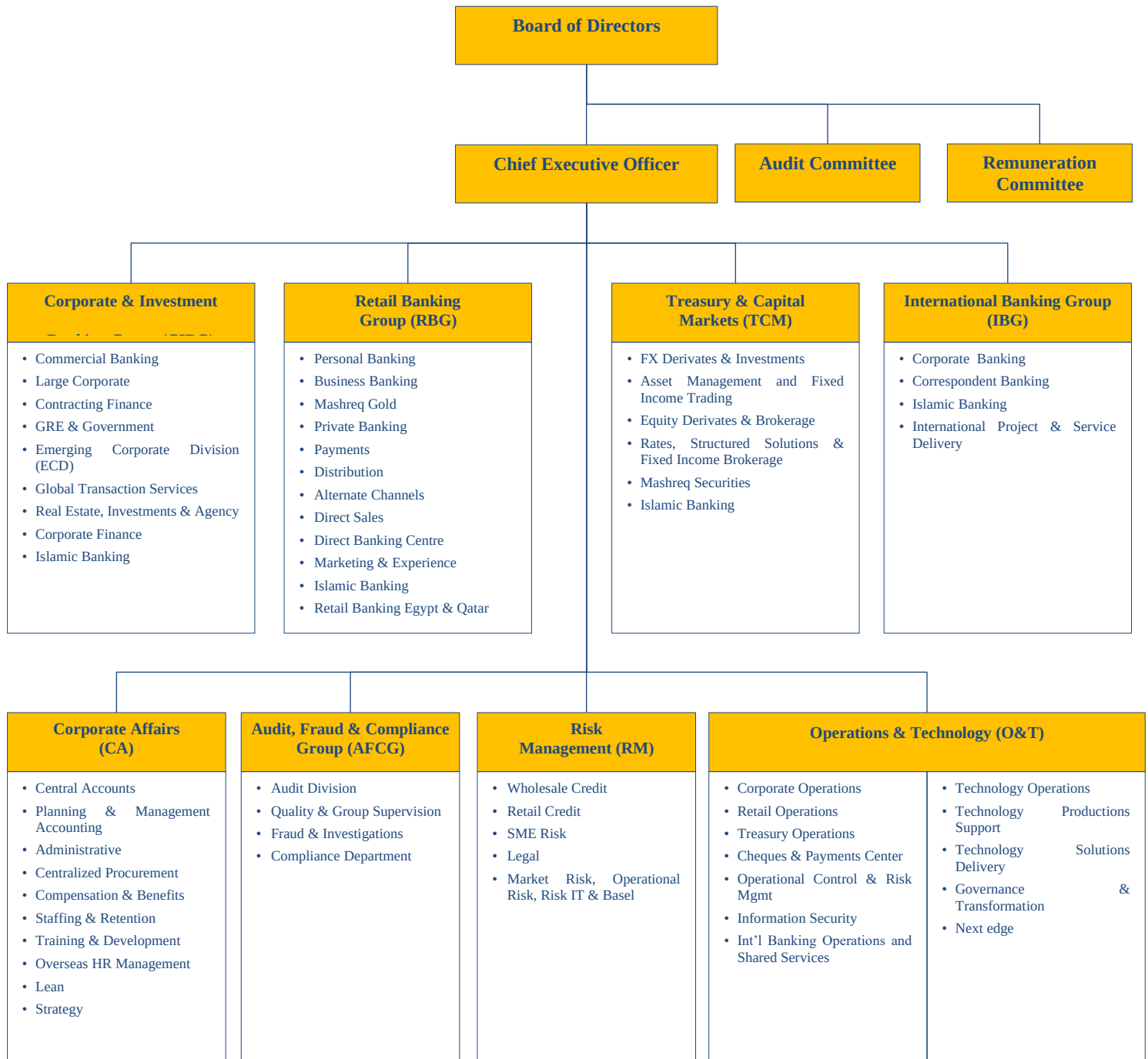
The Bank's shares are listed and traded on the Dubai Financial Market.

Strategy

The Bank introduced a rolling strategic growth plan in 2016 and has continued with its implementation in 2019. This is expected to play an important role in providing strategic guidance and driving the business growth of the Bank. The key areas of the Bank's strategy are articulated around "GROWTH": (i) gain new

clients; (ii) regulatory compliance; (iii) operational excellence; (iv) the Bank wisely taking risk; (v) technology and innovation; and (vi) happier employees.

The following chart sets out the Bank's organisational structure as at the date of this Base Prospectus.



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 solution delivery 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:

Corporate Origination and Business Development ("COBD**")**

The COBD team leads the Bank's origination and business development activities for mergers and acquisitions across the UAE and MENA, including the Kingdom of Saudi Arabia. The COBD team is composed of pan-industry specialists covering all segments catering for large corporates, mid markets and multinationals. The COBD team plays a critical role in initiating dialogue and building bridges between prospective clients and the respective industry verticals within the corporate and investment banking group and other lines of businesses, such as Retail Banking, Private Banking and International Banking. The COBD team operates by understanding clients' business requirements, proposing and structuring suitable solutions by utilising the full spectrum of the Bank's industrial capabilities and geographic footprint to deliver custom-made solutions to the Bank's clients.

Global Transaction Banking ("GTB**")**

The GTB vertical offers products and solutions in the transaction banking space in the UAE and across the GCC. From complete cash and corporate liquidity management to trade, supply chain financing and commodity trade finance, GTB combines its expertise with comprehensive regional knowledge to pursue business opportunities with customised products and digital solutions to meet the dynamic and holistic needs of its corporate customers.

GTB offers a broad range of digitalised transaction services to a diverse spectrum of industries.

GTB's solutions are customised and backed by innovative products such as: (i) mashreqMATRIX, a state of the art integrated transaction banking online platform; (ii) mashreqMATRIX EDGE, a mobile channel available to the Bank's corporate clients; (iii) mashreqMONSTER, a proprietary collection service enabling real-time collection of cash at customer premises; (iv) host-to-host services; (v) Mashreq SafeCash, a specialised service for the secure transportation of cash and cheques from corporate locations to or from the Bank, in collaboration with reputable security agencies; (vi) Mashreq SafeDoc, a secure and fast document pick-up and delivery service using a courier service; (vii) MashreqCHEQUE-Scan, a service that allows clients to scan cheques for presentation in clearing from their own premises with the physical cheques deposited in the Bank, thereby reducing the processing turnaround time and granting faster access to funds; (viii) virtual accounts; (ix) cardless cash withdrawal; (x) traditional and structured trade; (xi) supply chain solutions; (xii) factoring services; and (xiii) commodity finance solutions.

The GTB division has been recognised nationally and internationally and has received awards and accolades for cash, trade, product innovation and excellent service including:

1. Finance Derivative 2019 Awards — Best Bank for Factoring UAE 2019;
2. Global Finance:
 - Innovator 2019 – Corporate Real-time Payment Tracker
 - Most Innovative Corporate Digital Bank in UAE
3. EMEA Finance – 2019:
 - Best Product Launch (Corporate Real-time Payment Tracker)
 - Best Cash Management Services in the Middle East

- Best Factoring Services in the Middle East
- Best FX Services in the Middle East
- Best Payment Services in the Middle East
- Best Treasury Services in the Middle East

Corporate Finance Division

The "Corporate Finance and Investment Banking" division acts as a one-stop shop providing a full spectrum of capital raising solutions for the Bank's corporate and financial institution client base. The division has, in the recent past, lead-managed numerous syndicated loan and debt capital market transactions in the regional and international markets. The division advises clients on recognised capital structures and financing frameworks, underwriting, executing and distributing transactions for borrowers across the GCC, Egypt, sub-Saharan Africa, South Asia, and other regions. The division has established a strong regional franchise in financing large projects and acquisitions across a range of economic sectors including, inter alia, oil, gas, petrochemicals, power, water, infrastructure, telecommunications, education, healthcare, financial sponsors, and financial institutions.

The high-value-low-volume nature of this division has supported the Bank's overall strategy of asset growth through providing its clients with recognised and structured solutions and seeking diversification of the Bank's deals beyond the conventional syndication market. The Bank believes that this division presents significant growth opportunities in order to achieve its overall business strategy and growing focus on lead-book running syndicated loan market transactions and securing global coordination and joint-lead roles on debt capital market issuances.

In 2019, the Corporate Finance and Investment Banking Division were recognised internationally for their achievements and won the following prestigious awards for deals completed over the past 12 months:

- EMEA Finance – "Best Structured Finance House in Middle East";
- EMEA Finance – "Best Structured Finance Deal in North Africa – Telecom Egypt";
- EMEA Finance – "Best Islamic Finance – Financial Institution – Al Baraka";
- EMEA Finance – "Best Syndicated Murabaha deal – United Eastern Medical Services";
- EMEA Finance – "Best Innovative Structured Finance Deal in EMEA – Shorouq";
- Bonds & Loans Middle East – "Best Cross Border Deal";
- Bonds & Loans Middle East – "Syndicated Loan Deal of the Year 2018";
- Global Banking & Finance – "Bank for Best Corporate Finance Deals, UAE 2018";
- Global Banking & Finance – "Best Bank for Structure Finance, UAE 2018"; and
- IFN Awards - "Islamic Cross-Border Deal of the year 2018".

Islamic Banking

The Bank offers a wide range of products and solutions developed on the basis of Islamic banking principles. The Bank caters for the wide-ranging needs of its clients, such as working capital, construction finance, asset procurement, lease rental discounting, liquidity management, asset management and hedging services.

Islamic banking has grown exponentially in the region and the Bank has successfully arranged finance for local and international clients from the region, introducing them to local liquidity and unique Islamic corporate structures.

The Bank is supervised by an independent Shariah Board comprising of world renowned Shariah Scholars to ensure a high level of Shariah compliance.

Non-Banking Financial Institutions ("NBFI")

The NBFI provides coverage and product offerings across each of the regional markets where the Bank operates across the below sub-verticals:

- sovereign wealth funds;
- multilateral institutions;
- private equity;
- asset managers;
- investment companies;
- finance companies;
- insurance companies;
- pension funds; and
- family offices.

The NBFI coverage extends to both conventional and Islamic banking offerings with solutions, including:

- structured trades to support investment and funding transactions in relation to acquisition financing, capital call financing, real estate financing and leverage against marketable securities;
- relationship facilities structured around balance sheet based solutions;
- liquidity and hedging requirements through innovative treasury solutions; and
- account services including transaction banking services to support day to day account management, cash management offerings (cash pickup and delivery, corporate cheque scanning, host-to-host payment solutions and trade solutions, including factoring, guarantee issuances and receivables discounting).

The industry expertise ensures:

- Deep understanding of business with tailor made solutions across each sub-segment of NBFI business. The coverage encompasses a combination of relationship lending and structured solutions, including engagements across the Bank's product platforms, offering a comprehensive service to clients.
- Transparent and trustworthy relationships.

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.

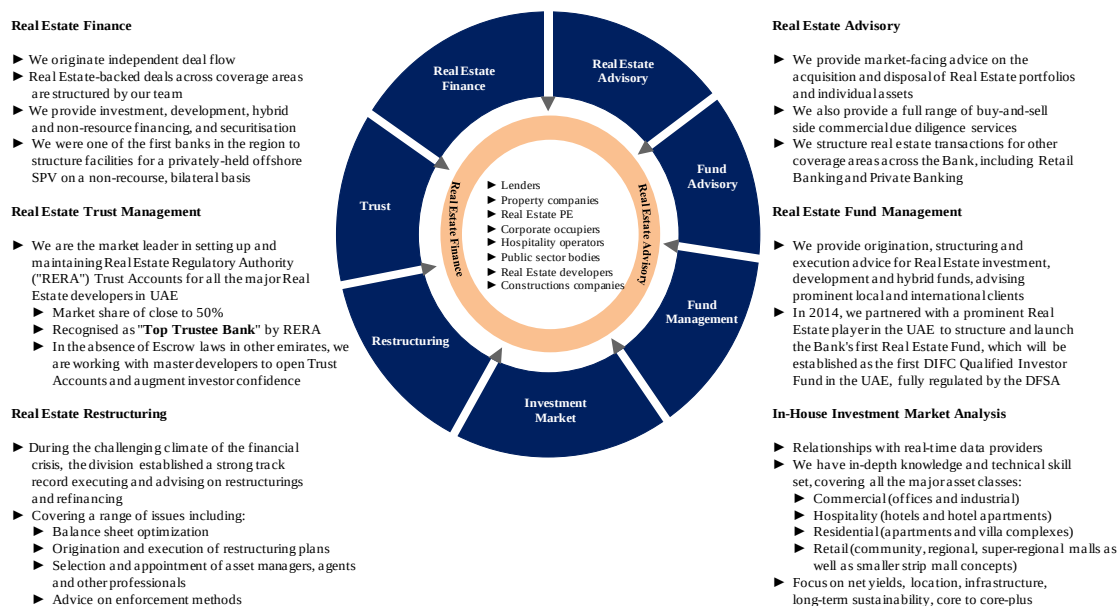
In addition to the above, the contracting finance division has partnered with industry experts as part of the Bank's strategic focus on industry specialisation, with the aim of adding value to the contracting industry through in-depth knowledge sharing, insights and interactions.

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 & 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 – Real Estate Division

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.

Healthcare and Education

The Healthcare and Education division is committed to supporting clients' growth aspirations across the GCC, North Africa and Asia, backed by the Bank's strong regional presence, diverse product range and transaction banking and non-lending services offered and most importantly with refined sector expertise and understanding of the sector specific dynamics.

Energy Sector

The Energy division supports clients operating in the conventional hydrocarbon value stream (upstream, mid-stream and downstream). Wholesale banking offerings such as trade finance, expansionary credit and structured solutions are customised around the Bank's customer centric approach. The Bank provides bespoke solutions including corporate finance and debt capital markets offerings. With the growing significance of 'green energy', the Bank continues to invest and grow its profile in the renewables space.

Public Sector, Aviation and Utilities

This division covers sectors prioritised by the government, and which are largely sponsored by governments in the region. The division is focused, through dedicated specialised teams, on providing bespoke banking solutions to the respective sectors, covering the entire gamut of utility finance including generation / transmission / distribution, as well as specialised aviation finance with key market participants in the region.

Services and Manufacturing

The Bank has specialised teams which focus on the services and manufacturing sectors on a global scale; and have been able to leverage the Bank's expertise on segments such as telecom, media, technology, logistics (land and marine), warehousing, tourism, security and facility management, fmcg packaging, building materials (steel and cement) and other diversified segments, including defence and aerospace.

The Middle East is seeing rapid growth and consistent focus towards a non-oil based economy, and consequently, the governments in GCC are incentivising the services and manufacturing segments to create a sustainable backdrop which supports employment in the region. Through the Bank's specialisation within these segments, the Bank has been able to profile the market by assessing the backward and forward integration mechanism. This in turn has enabled the Bank to benchmark industry triggers as and when they occur, to be better informed and alert to any opportunities and/or challenges.

Domestic retail

With a domestic network of 31 branches, 2 electronic business service units, 411 ATMs and 17 teller cash recycler spread across the seven emirates, 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 a number of other countries including Qatar, Bahrain, Kuwait 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 portfolio, the Bank also offers a range of bancassurance products which focus on whole life and term life insurance.

The Bank continues to lead the way in encouraging the adoption of digital banking in the UAE and beyond. This year, the Bank launched a program to transform its branch network; focusing on advisory services that encourage greater human interactions between employees and customers for major financial decisions. For

everyday transactions, the Bank's state-of-the-art technology enables customers to benefit from a wide range of self-service facilities, and the Bank plans to expand the range of these solutions to make banking quicker, easier and more accessible across the Bank's network.

The Bank was the first UAE bank to launch a fully-fledged digital bank, Mashreq Neo. Over the past year, Mashreq Neo has witnessed an uptake of approximately 45 per cent. of new customer acquisition, and the Bank has major projects in the pipeline to expand these services beyond personal banking to cater to businesses and other client segments. This was soon followed by Mashreq's Neo Biz, the first digital banking proposition in UAE that will offer customized and specifically tailored digital offerings for SME's including start-ups and young businesses in the country. NeoBiz offers a better solution for businesses by providing an intuitive, uniform and convenient digital account opening experience, with speed and predictability. This, together with the Bank's chatbot for assistance, information submission or KYC portal, enhanced transaction capability and value added services, offers the Bank's customers a comprehensive suite of digital services.

The Bank was the first bank to establish Masterpass QR as well as Alipay in the region, and one of the first banks to introduce both Apple Pay and Samsung Pay when they launched in the UAE. Last year, The Bank also launched its own digital wallet, Mashreq Pay, allowing customers to simply tap and pay at retail outlets, making their payment experience quicker, easier and more secure. The Bank is also a part of the Emirates Digital Wallet initiative, working closely with the government to enable accessible cashless solutions for the unbanked and underbanked.

The Bank has been recognised for its innovation and digital efforts both locally and regionally. It was awarded as the: Best Bank in the UAE; Most Innovative Consumer Digital Bank in the UAE and Middle East; Best Online Deposit; Best Credit and Investment Product Offerings in the UAE and Middle East; and Best Bill Payment & Presentment in the UAE and Middle East by Global Finance Magazine in 2019. Furthermore, the Bank was awarded two different accolades at the New Age Banking Awards 2019, powered by BusinessLive Middle-East that included Most Innovative Bank and Excellence in Innovation in Digital Banking. In addition, the bank received another two significant accolades at the prestigious World Finance Digital Banking Awards in the categories that included: Best Consumer Digital Bank, UAE and Best Mobile Banking App, UAE. The Bank also received the coveted UAE Innovation Award 2019 for its efforts to introduce innovation to the UAE's banking sector.

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. This includes building a portfolio of investment advisory services covering a range of in-house and third party investment products such as equity mutual funds, fixed income funds, insurance and structured notes.

The Bank continues to invest in initiatives that have the potential to not only deliver benefits for the business and its customers but also to support the overall startup ecosystem in the UAE. In line with this objective, the Bank has partnered with DIFC in the Fintech Hive start-up boot camp where conglomeration of new start-ups had presented their product and business ideas.

The Bank is also one of the two banks to sponsor the Dubai technology entrepreneur campus ("DTEC") entrepreneur acceleration program at Dubai Silicon Oasis where the Bank provided insights into financial management and banking processes to budding entrepreneurs.

In addition to the above, the Bank has a strategic alliance with the Dubai Department of Economic Development (the "DED") and has created a tailor made product for DED E-Trader customers.

Treasury and Capital Markets ("TCM")

The Bank's TCM 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.

The Bank also facilitates access to regional and international markets. It offers individual and institutional clients a range of products and services via trading platforms.

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 TCM group undertakes a limited amount of proprietary trading activity.

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

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

Rates and Fixed Income Desk

The Rates and Fixed Income 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 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 bond and sukuk transactions during 2019, including acting as joint lead manager and book-runner in the distribution and placement of Emaar's USD 500 million 10 year sukuk and joint lead manager in Ecobank Transnational's USD 500 million 5 year bond. The Bank has also expanded its Reverse Repo offering by adding new relationships and volumes which are expected to grow further.

Asset Management

The Bank's Asset Management business is comprised of several mutual funds and discretionary mandates. The funds are housed in various jurisdictions including the DIFC (Mashreq Capital Shariah Compliant Funds and Mashreq Capital Funds) and the Kingdom of Bahrain (Makaseb Funds).

Mashreq Capital (DIFC) Ltd. ("MC") is regulated by the Dubai Financial Services Authority and is responsible for running all the public funds and all discretionary account mandates. MC specialises in regional public equities and global fixed income, in both the *Shari'a* and conventional space.

International Banking

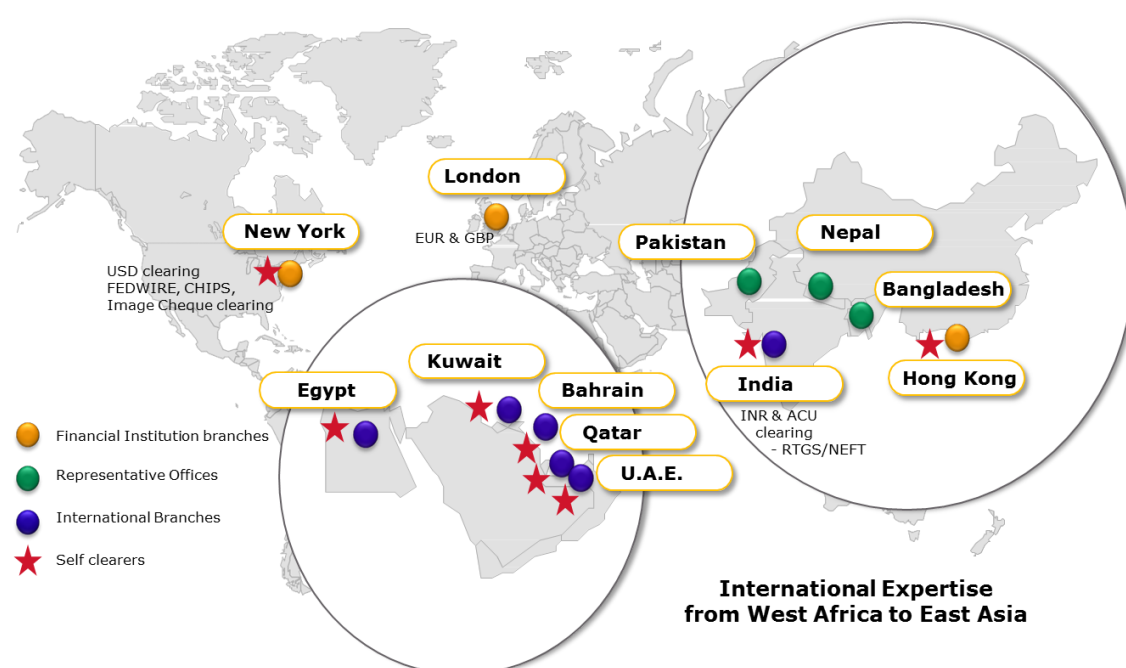
The International Banking Group ("IBG") provides commercial banking services to customers outside the UAE. The Financial Institution Group is part of the international banking group and provides correspondent banking, trade finance products and services to financial institutions in select markets. The Bank's branches in London, New York 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 of which operate one branch; Egypt has twelve branches in 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 2019, the Bank has continued to build its selective corporate banking business through its Mumbai branch. The Bank is also licensed for offshore banking in the Kingdom of Bahrain, which is playing an important role in both mobilising wholesale low cost institutional deposits and in the growth of the Bank's Bahraini business.

The Bank's New York branch focuses solely on its financial institutions business, and has direct membership with the FED and CHIPS clearing systems.

The Bank's Widespread Network



The Bank's strategic goal is to continue to leverage its existing footprint by supporting the needs of international clients 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.

IBG 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. 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 customers (net of impairment allowances) were AED 72,170 million as at 30 September 2019, AED 69,270 million as at 31 December 2018 and AED 62,734 million as at 31 December 2017. 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 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
Gross loans.....	76,250	72,889	65,920
Interest / other income in suspense.....	(708)	(534)	(295)
Allowances for impairment.....	(3,372)	(3,086)	(2,891)
Net loans	72,170	69,270	62,734

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
Net loans/customer deposits (per cent.)	85.8%	83.2%	82.5%
Net loans/customer deposit + medium term loan (per cent.)	75.5%	75.8%	76.2%

Distribution of Loans by Type of Collateral

As at 31 December 2018, approximately 59 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 2019, 31 December 2018 and 31 December 2017:

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
Short term loans ⁽¹⁾	35,233	32,198	29,055
Medium and long-term loans ⁽²⁾	36,937	37,072	33,679
Total	72,170	69,270	62,734

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 2019; 31 December 2018 and 31 December 2017:

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
AED	46,620	45,118	42,519
Foreign currency	25,550	24,152	20,215
Total	72,170	69,270	62,734

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

Responsibility for defining the procedures for approval of credit resides across the Risk Management and Credit Management groups.

The Risk Management Group ("**RMG**") is independent of business groups and is led by a Group Chief Risk Officer ("**CRO**") with responsibility for enterprise-wide risk management and oversight of all material risks within the Bank. The RMG is primarily responsible for defining the framework for management of credit risk, market risk, operational risk and other material risks within the Bank. The CRO does not have a decision-making role in credit underwriting activities.

The Chief Credit Officer ("**CCO**") of the Bank is responsible for overseeing all aspects of Credit underwriting and management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

The Bank has separate approval processes for its retail and wholesale 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 Board Risk Committee ("**BRC**"). All approval authorities are delegated by the Board to BRC. 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 borrower; transaction details (including the amount and type of facility sought and pricing); the relevant credit conditions of the borrower; the security details of the borrower; information relating to the operating condition, business and management of the borrower, including a detailed financial analysis, background/historical information relating to the borrower; and related industry factors. The Bank sets credit limits for all borrowers and/or counterparties based on their creditworthiness.

The Bank has implemented a credit risk rating framework that supports the development of key credit risk parameter estimates in order to 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 providing 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 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. Credit risk rating models, however, remain 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 BRC. 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 signature may also be required.

The Bank has established country limits for cross-border and transfer risk between countries. Individual country limits are defined based on a detailed Country and transfer risk 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 Enterprise Risk Committee ("ERC"). 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 group undertake regular reviews of the Bank's portfolio. This involves a sampling of assets in the wholesale portfolio. In retail, the focus is on testing the Bank's risk management processes, including the periodic review of retail assets, portfolio quality and related provisions. Specialist independent auditors subject the Bank's risk assets to a quality evaluation on a regular basis. Reviews are conducted 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 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 material asset portfolios of the Bank. Risk ratings are 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 continues to ensure that its policies remain compliant with UAE Central Bank regulations. The Bank's portfolio of non-performing loans (obligations which are more than 90 days past due for principal or interest) continue, however, to be classified as either Non-Accrual Under Restructuring ("NAUR"), Sub-standard, Doubtful or Loss, 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, where the borrower shows some weaknesses in its financial condition and credit-worthiness requiring focused attention but not allocation of provisions;
- Sub-standard loan: These are loans which may lead to the Bank incurring 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 will 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, that being the Outstanding Loan balance less the Net Realisable Value of the collateral held calculated as per 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**"), all banks operating in the UAE are 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. The Bank currently maintains a general provision of 2.7 per cent. of its total gross loan portfolio, including Islamic financing. As at 30 September 2019, the Bank had specific impairment allowances for loans of AED 1,998 million in addition to a collective impairment allowance of AED 2,082 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.

In addition to the above and in accordance with UAE Central bank guidance notes to Banks and Finance Companies issued in March 2018, the Bank also measures general provisions under IFRS 9 rules. IFRS 9 outlines a 'three-stage' risk-based model for calculation of impairment based on changes in credit quality since initial recognition of a facility. As required by UAE Central Bank guidelines, the Bank takes the higher of the loan loss provisions required under 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

In January 2018, the Bank adopted the IFRS 9 standard. This has fundamentally redesigned the provisioning process, moving from an 'incurred loss' model to a forward looking 'expected loss' model. The standard contains a 'three stage' approach to recognise 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.

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 2019, 31 December 2018 and 31 December 2017:

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
		(AED Millions)	
Total loans (gross).....	76,250	72,889	65,920
Interest / other income in suspense	708	534	295
Impairment allowance for doubtful loans	3,372	3,086	2,891

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
Total allowance for impairment	4,080	3,620	3,186
Non-performing loans	3,284	2,783	2,226
	(%)		
Non-performing loans (including Islamic financing and net of interest/other income in suspense)/gross loans (including Islamic financing).....	3.4	3.1	2.9
Total impairment allowance/ Non-performing loans (including Islamic financing and net of interest/other income in suspense).....	130.9	137.2	149.7

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 2018, the Bank wrote-off AED 1.6 billion from classified accounts which had been fully provisioned in previous years. The Bank wrote off AED 0.2 billion from classified accounts during the nine months ended 30 September 2019.

Doubtful and Loss Accounts – Banks

The following table shows the Bank's non-performing assets and related provisions and ratios as at 30 September 2019, 31 December 2018 and 31 December 2017:

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
	(AED Millions)		
Due from banks (gross)	26,853	23,076	20,135
Non-performing bank assets	37.6	35.4	-
Impairment allowance for bank assets	72.9	66.7	-
Non-performing bank assets/total due from bank (per cent.)	0.1	0.2	-
Total impairment allowance/non-performing bank assets (per cent.)	193.9	188.4	-

Investment Portfolio

As at 30 September 2019, the Bank's investment portfolio represented 9.7 per cent. (compared to 9.9 per cent. as at 31 December 2018 and 11.7 per cent. as at 31 December 2017) of its total assets and as at 30 September 2019 the Bank's financial assets at fair value portfolio represented 2.1 per cent. (compared to 1.2 per cent. as at 31 December 2018) of its total assets.

The equity holdings of the Bank, which constituted 3.4 per cent. of the Bank's investment portfolio as at 30 September 2019 (compared to 4.0 per cent. as at 31 December 2018 and 4.2 per cent. as at 31 December 2017) 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, GCC and OECD sovereigns, as well as a range of other high-grade bonds.

Deposits and Other Funding Sources

As at 30 September 2019, customer deposits constituted 70.5 per cent. (compared to 72.9 per cent. as at 31 December 2018 and 81.0 per cent. as at 31 December 2017) of the Bank's total funding sources and 67.3 per cent. (compared to 69.8 per cent. as at 31 December 2018 and 73.1 per cent. as at 31 December 2017) 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 2017, the Bank issued 61 private placement Notes under the EMTN programme for a total of U.S.\$1,640.6 million. In 2018, the Bank issued 63 private placement Notes under the EMTN programme for a total of U.S.\$1,909.1 million. As at the date of this Base Prospectus, the Bank has issued 60 private placement Notes for a total of U.S.\$1,748.9 million and a U.S.\$675 million benchmark 5 year public bond under the Programme during 2019.

The following table sets out the maturity profile of the Bank's liabilities as at 30 September 2019, 31 December 2018 and 31 December 2017:

	As at 30 September 2019		As at 31 December 2018		As at 31 December 2017	
	(AED Million)	Per cent.	(AED Million)	Per cent.	(AED Million)	Per cent.
Short-term ⁽¹⁾	112,875	90.33	111,113	93.24	98,344	94.51
Long-term ⁽²⁾	12,087	9.67	8,053	6.76	5,718	5.49
Total	124,962	100	119,166	100	104,062	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 III 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 III 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 periodically monitored.

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 reserve requirements on deposits, which are currently 1 per cent. on time deposits and 14 per cent. on current, savings and call 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 2019, the Bank's net loans and advances, including Islamic financing, to stable funds ratio was 83.2 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 2019 and 31 December 2018 and 2017:

Liquidity Ratios	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017
Customer deposits/total funding base	70.5%	72.9%	81.0%
Net loans/customer deposits	85.8%	83.2%	82.5%
Net loans/total assets	49.1%	49.5%	50.1%

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, as at 31 December 2018, the Bank does maintain a long U.S. dollar position of AED 1.5 billion and long position in Qatari Riyals of AED 1.6 billion, which is within limits approved by ALCO. The Bank's other net foreign exchange exposure was not significant.

See Note 43 to the audited consolidated financial statements in respect of the year ended 31 December 2018.

Audit

The Internal Audit Group in Mashreq Bank provides independent assurance on the effectiveness of lending and risk management processes. Audit verifies that the credit facilities provided adheres to the Bank's internal policies and regulatory guidelines. It also reviews the processes associated with the portfolio monitoring, know your customer (KYC), operating procedures and adherence to Shari'ah compliance guidelines, as applicable. For Commercial and Institutional clients, it further includes Credit Initiation, Approval, Account Management and the Risk Rating assigned to the borrower. For the retail customers, the audit team also assesses the processes to highlight portfolio risk by product and segment.

International Financial Reporting Standards

The adoption of IFRS 9 resulted in changes to the Bank's presentations and disclosure in its financial statements, as required by IFRS.

Competition

As at 30 September 2019, 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 2019 and 31 December 2018:

Ranking by Total Assets	As at 30 September 2019	As at 31 December 2018
	<i>(AED Millions)</i>	
First Abu Dhabi Bank	788,163	744,125
Emirates NBD	675,584	500,343

Ranking by Total Assets	As at 30 September 2019	As at 31 December 2018
	<i>(AED Millions)</i>	
Abu Dhabi Commercial Bank	406,916	423,419
Dubai Islamic Bank	229,963	223,682
Mashreqbank	146,874	139,932
Abu Dhabi Islamic Bank	124,285	125,193

Source: 2018 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2019) of each bank. For Abu Dhabi Commercial Bank, 2018 numbers are taken from the pro-forma balance sheet.

Ranking by Customer Deposits	As at 30 September 2019	As at 31 December 2018
	<i>(AED Millions)</i>	
First Abu Dhabi Bank	476,759	465,476
Emirates NBD	468,229	347,866
Abu Dhabi Commercial Bank	262,533	285,417
Dubai Islamic Bank	162,951	155,657
Abu Dhabi Islamic Bank	100,364	100,404
Mashreqbank	84,109	83,219

Source: 2018 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2019) of each bank. For Abu Dhabi Commercial Bank, 2018 numbers are taken from the pro-forma balance sheet.

Ranking by Loans and Advances	As at 30 September 2019	As at 31 December 2018
	<i>(AED Millions)</i>	
Emirates NBD	429,656	327,931
First Abu Dhabi Bank	377,767	353,205
Abu Dhabi Commercial Bank	249,530	260,340
Dubai Islamic Bank	151,691	144,739
Abu Dhabi Islamic Bank	81,189	80,030
Mashreqbank	72,170	69,270

Source: 2018 Annual Reports and Financial Statements and Interim Financial Statements (as at 30 September 2019) of each bank. For Abu Dhabi Commercial Bank, 2018 numbers are taken from the pro-forma balance sheet.

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 2018 was AED 846 million with accumulated depreciation of AED 188 million, giving a net book value of the Bank's real estate assets as of such date of AED 658 million. The Bank also owns land costing AED 96 million, which was acquired in settlement of debt. As at 31 December 2018, the book value of such properties was AED 37 million.

Capital Expenditure

For the period ended 30 September 2019, the Bank incurred capital expenditure amounting to AED 254 million and for the year ended 31 December 2018, the Bank incurred AED 312 million of capital expenditure.

Capital Adequacy

The UAE Central Bank, as per Basel III guidelines requires all UAE banks to maintain a minimum total capital adequacy ratio 10.5 per cent. Effective from 1 January 2019, within this minimum capital adequacy ratio, banks are required to maintain a 7 per cent. minimum common equity Tier 1 ratio and an 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 13 per cent. 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 2019, the Bank had a total capital adequacy ratio of 16.75 per cent., a Tier I capital adequacy ratio of 15.63 per cent. and a Tier II capital adequacy ratio of 1.12 percent., 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.

Leverage & Liquidity

Basel III introduces a minimum 3 per cent. leverage ratio effective 30 June 2020 and two liquidity ratios, Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**").

LCR requires a bank to hold sufficient high quality liquid assets to cover its total net cash flows over 30 days stress testing period. Banks are required to maintain minimum LCR ratio of 100 per cent. from the 1 January 2019. The Bank's LCR ratio as at 30 September 2019 was 167 per cent.

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.

Regulatory

2018 Consent Order

In 2018, the Bank reached a settlement with certain U.S. authorities regarding U.S. sanctions compliance in the period 2016 to 2017, involving a Consent Order by the New York State Department of Financial Services ("**DFS**"). Under the terms of the Consent Order, the Bank has agreed to pay the DFS a total of U.S.\$40 million.

The Consent Order addresses findings related to Anti-Money Laundering and Bank Secrecy Act violations as well as regulations issued by the U.S. Office of Foreign Assets Control as relates to the activities of the New York Branch of the Bank, which provides U.S. dollar clearing services.

The Consent Order did not specify any wilful violations by the Bank. In particular, it was noted in the Consent Order that the Bank has demonstrated a keen interest in and commitment to, remediating its regulatory issues addressed in the Consent Order and has demonstrated laudable conduct in seeking to meet its compliance obligations.

The Bank is committed to establishing and maintaining appropriate and effective Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies. The Bank has worked with the DFS appointed consultant on the remediation and improvement of all Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies, procedures, methodologies and systems. The Bank has enhanced and implemented: (i) a Bank Secrecy Act, Anti-Money Laundering and Sanctions Program Manual; (ii) KYC Policy and Standard Operating Procedures; (iii) Transaction Monitoring Standard Operating Procedures; (iv) Quality Assurance Methodology and Standard Operating Procedures; (v) Customer Risk Assessment Methodology and Form; (vi) Geographic Risk Assessment Methodology; (vii) Training Policy; (viii) DFS Part 504 Procedures; (ix) Sanctions Standard Operating Procedures; and (x) Anti-Money Laundering Tuning Methodology. The Bank continues to evaluate and enhance its sanctions screening system "Fircosoft" and transaction monitoring system "Actimize".

Historical U.S. dollar payment activity

In 2015, the Bank became aware of certain historic Sudan related U.S. dollar payment processing activity through U.S. dollar bank accounts, including offshore U.S. dollar accounts at European financial institutions that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, the Bank appointed external legal advisers to assist it in reviewing these transactions all of which occurred prior to March 2009, and reviewing its compliance with U.S. sanctions laws and its compliance processes generally, including proactively cooperating with the UAE Central Bank.

Following this review, the Bank submitted its findings to relevant regulators in the UAE and the United States in 2018. As at the date of this Base Prospectus, the relevant regulators have not yet responded following receipt of the Bank's findings with one exception, and in respect of that regulator the discussions are at an early stage. As such, the likely outcome remains unknown.

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 2019, the Bank had 14 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, Invictus Limited, Al Taqania Employment Services One Person LLC, Al Kaafat Employment Services One Person Company LLC, Shorouq Commodities Trading DMCC & IDFAA payment Services LLC.

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 2018, it had total assets of AED 6,823 million, compared to total assets of AED 7,405 million as at 31 December 2017. In the year ended 31 December 2018, Oman Insurance Company contributed net income of AED 5.4 million to the Bank (after non-controlling interests), compared to contributed net income of AED 67.1 million for the year ended December 2017.

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. As at 31 December 2018, it had total assets of AED 163 million, compared to total assets of AED 161 million as at 31 December 2017. In the year ended 31 December 2018, Osool generated AED 2 million of net income, compared to a net income of AED 4 million in the year ended 31 December 2017. Currently no new business is booked in Osool-A Finance Company.

Mindscape FZ-LLC

The Bank owns 100 per cent. of the shares in Mindscape FZ-LLC ("**Mindscape**"), which provides technology solutions and support to the Bank and its subsidiaries. As at 31 December 2018, Mindscape had total assets of AED 506 million, compared to total assets of AED 503 million as at 31 December 2017. In the year ended 31 December 2018, Mindscape generated net income of AED 3.6 million (after non-controlling interests), compared to AED 1.8 million in the year ended 31 December 2017.

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 2019, Mashreq Securities had total assets of AED 72 million, compared to total assets of AED 80 million as at 31 December 2018 and AED 101 million as at 31 December 2017. In the year ended 31 December 2018, Mashreq Securities generated net loss of AED 6 million (after non-controlling interests), compared to net income of AED 4 million in the year ended 31 December 2017. In the nine month period ended 30 September 2019, Mashreq Securities incurred a loss of AED 4 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. As at 31 December 2018, Mashreq Capital had total assets of AED 28 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.

Makaseb Funds Company BSC

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 were registered with the Bahrain Ministry of Commerce on 22 December 2004.

Mashreq Al-Islami Finance Company (PJSC)

The Bank owns 99.8 per cent. of the shares of Mashreq Al-Islami Finance Company (PJSC) which provides *Shari'a* compliant finance for personal consumer and commercial purposes. As at 31 December 2018, it had assets of AED 1,539 million and made a net profit of AED 42 million (after 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 2019, Invictus Limited had assets of AED 426 million.

Al Kaafat Employment Services One Person Company LLC

The Bank owns 100 per cent. of the shares of Al Kaafat Employment Services One Person (LLC) (formerly known as Al Kafaat Employment Services (LLC)), which provides employment services, such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 30 September 2019, the company had assets of AED 3 million.

Al Taqania Employment Services One Person Company LLC

The Bank owns 100 per cent. of the shares in Al Taqania Employment Services One Person Company LLC (formerly known as Al Taqania Employment Services (LLC)), which provides employment services such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 30 September 2019, the company had assets of AED 8 million.

Shorouq Commodities Trading DMCC

The Bank owns 100 per cent. of the shares of Shorouq Commodities Trading, a trading company incorporated in the DMCC free zone. Primary activities of the company include trading of refined oil, petrochemicals, steel and metal products.

IDFAA payment Services LLC

The Bank owns 100 per cent. of shares of IDFAA Payment Services LLC which provides payment services for the Bank.

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 seven 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. Two of the seven directors are independent directors who are not related to the major shareholders or the Chairman. All directors are non-executive directors. 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

Name	Position
Abdulla Bin Ahmad Al Ghurair	Director
Abdul Aziz Abdulla Al Ghurair	Chairman
Ali Rashid Ahmed Lootah.....	Vice Chairman (independent)
Sultan Abdulla Ahmed Al Ghurair.....	Director
Rashed Saif Ahmad Al Ghurair.....	Director
Rashed Saif Saeed Al Jarwan	Director (independent)
Mohammad Saif Ahmad Al Ghurair	Director

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 was the Chairman of the Bank between 1996 and September 2019. 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.

Abdul Aziz Abdulla Al Ghurair

Mr. Abdul Aziz Abdulla Al Ghurair has been Chairman of the Bank's Board of Directors since October 2019. Prior to his election as Chairman, Mr Abdul Aziz Abdulla Al Ghurair held the position of Chief Executive Officer and Director of the Bank since 1991. He is a graduate of 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, Vice Chairman of the Higher Board of Dubai International Financial Centre (DIFC), member of the board of directors of Emirates Foundation, chairman of Oman Insurance Company psc and chairman of the UAE Banking Federation. Mr. Abdul Aziz Abdulla Al Ghurair is also the ex-speaker of the UAE Federal National Council.

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.

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.

Mohammad Saif Ahmad Al Ghurair

Mr. Mohammad Saif Ahmad Al Ghurair has been a Director of the Bank since May 2018. Mr. Mohammad is also the Chairman of Arabian Packaging Co, Saif Al Ghurair Real Estate Group and a Board Member of Saif Al Ghurair Group of Companies and Taghleef Industries.

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
Ahmed Abdelaal.....	Chief Executive Officer and acting Head of Corporate and Investment Banking Group
Ali Raza Khan	Chief Financial Officer and Head of Corporate Affairs
Subroto Som.....	Head of Retail Banking Group
Jan-Willem Sudmann	Head of International Banking Group
Hammad Naqvi	Head of Treasury and Capital Markets
Anuratna Chadha.....	Chief Risk Officer and Head of Risk Management
Roy Philip Sebastian	Chief Credit Officer
Naseer A. Paracha	Head of Internal Audit
Rajesh Verma	Head of Compliance
Sandeep Chouhan.....	Head of Operations and Technology

None of the members of the Leadership Forum is related to the major shareholders or the Chairman. Detailed below is brief biographical information on the members of the Leadership Forum of the Bank.

Senior Management Profile

Ahmed Abdelaal – Chief Executive Officer and acting Head of Corporate and Investment Banking Group.

Mr. Ahmed Abdelaal is an alumnus of London Business School and holds a Master 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.

Ali Raza Khan – Chief Financial Officer and 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 38 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.

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 across Asia, the Middle East and Africa, has held several senior positions within risk, operations and consumer banking at Citibank and Standard Chartered. Prior to joining the Bank, he was with Boston Consulting Group, Singapore, where he was an advisor on banking, digital strategy and transformation.

Jan-Willem Sudmann – Head of International Banking Group

Mr. Jan-Willem Sudmann joined the Bank in December 2015. He holds a master's 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.

Hammad Naqvi – Head of Treasury and Capital Markets

Mr. Hammad Naqvi joined the Bank in 1996. He holds an MBA from the Institute of Business Administration in Karachi. Prior to joining the Bank in 1996, he was Head of Treasury with Bank of America, Pakistan and was also posted as Treasurer of Bank of America, Poland. He also spent 2 years in the merchant banking division of ANZ Grindlays in Pakistan.

Anuratna Chadha – Chief Risk Officer and Head of Risk Management

Mr. Anuratna Chadha joined the Bank in 2019. He has an MBA from Indian Institute of Management, Ahmedabad and holds Bachelor's Degree in Commerce from Shri Ram College of Commerce, Delhi. His banking career spans over 30 years, primarily in risk management, wholesale and corporate banking across Singapore, Japan, India and South Africa.

Roy Philip Sebastian – Chief Credit Officer

Mr. Roy Philip Sebastian joined the Bank in 2019. He holds a Masters Degree in Commerce and is a Certified Associate of Indian Institute of Bankers (CAIIB). He is a seasoned banking professional with over 30 years of work experience specialising in Credit Risk Management and Corporate Banking. Prior to joining the Bank, he spent over 21 years with HSBC Group in the Middle East. His last position held was as Regional Head of Credit Approval, Wholesale Credit MENAT, HSBC.

Nasser A. Paracha – Head of Internal Audit

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 Bachelor's degree in Operational Research / Computing from The University of Leeds, United Kingdom. During his tenure, Mr. Paracha 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.

Rajesh Verma – Head of Compliance

Mr. Rajesh Verma joined the Bank in 2007. He holds a Masters Degree in Economics from Osmania University, Hyderabad, India and is also a Certified Compliance Officer with qualifications in Compliance & Financial Crime. He has over 27 years of experience across all three lines of defense – Corporate Banking, Audit and now Compliance.

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.

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 2018.

Employees

As at 30 September 2019, the Bank employed 1,996 full-time staff, 857 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 2,709 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 2019, 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 934 million (compared with AED 1,112 million as at 31 December 2018 and AED 1,514 million as at 31 December 2017), loans and advances, including Islamic financing, in the amount of AED 3,627 million (compared with AED 3,853 million as at 31 December 2018 and AED 3,311 million as at 31 December 2017) and letters of credit, guarantees and acceptances in the amount of AED 1,684 million (compared with AED 1,269 million as at 31 December 2018 and AED 1,333 million as at 31 December 2017). 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.

THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION

Overview

According to data published by the UAE Central Bank, as at 31 December 2018 there were a total of 49 commercial banks (22 locally incorporated commercial banks and 27 foreign commercial banks) licensed to operate in the UAE, to serve a national population of approximately 9.5 million people as at 31 December 2018 (source: Statistical Yearbook 2018 edition, United Nations Department of Economic and Social Affairs, Statistics Division). As a result, the UAE could be, and has historically been, viewed as an over-banked market, even by regional standards, and there has traditionally been little impetus for consolidation. It is anticipated that the consummation of the merger of National Bank of Abu Dhabi and First Gulf Bank on 30 March 2017, which created First Abu Dhabi Bank, one of the largest banks in the MENA region by assets, may act as a catalyst for further consolidation amongst locally incorporated banks. This has already been observed in the merger of Abu Dhabi Commercial Bank Al Hilal Bank and Union National Bank.

The UAE's membership of the World Trade Organisation ("**WTO**") will likely require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to further 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

Historic Lack of Consolidation

The UAE may be, and has historically been seen as being over-banked and traditionally there has been little impetus for consolidation, with the federal structure of the UAE encouraging, to some extent, 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 historically hampered the process of consolidation. As a result, since the October 2007 merger of Emirates Bank International P.J.S.C. and National Bank of Dubai P.J.S.C. which created Emirates NBD, there has been very limited merger activity domestically in the sector.

While the anticipated attempts at consolidation would reduce the level of concentration in the domestic banking sector, they would also likely lead to a significant alteration of the competitive environment with fewer, larger locally incorporated banks competing for the larger financing transactions in the region with the foreign banks, which have tended to have comparatively larger franchises, with greater infrastructure and resources 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, with the possibility of 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 competing for a limited number of wholesale lending opportunities, most banks historically turned to retail banking, a previously untapped market. However, increasing competition in this area has gradually eroded margins and encouraged 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, information technology costs have been a prominent feature of many UAE 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 of a given Emirate 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 81 per cent. of the workforce according to estimates published by the Statistics Centre in mid-2016. 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 UAE 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 the percentage of UAE nationals on their payroll by at least 4 per cent. per annum. This policy has now been replaced by the Emiratisation Circular, which has introduced a scoring system which takes into account the employment and progression of Emirati employees in an organisation. The minimum threshold for Emirati employees for each institution is dependent on a number of factors. The Emiratisation Circular does not set any upper limit at which the policy would no longer be applicable. If UAE banks are not able to achieve their targets for recruiting and progressing UAE nationals through their organisation, they will

be subject to penalties to be computed in accordance with a specific formula set out in the Emiratisation Circular.

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 2008 global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE from 2008 to 2011 in response to the global 2008 financial crisis but rebounded between 2012 and 2018, with the ADX's General Index increasing from 2,630.9 at 31 December 2012 to 4,915.1 at 31 December 2018, and the Dubai Financial Market index increasing from 1,662.5 at 31 December 2012 to 2,529.8 at 31 December 2018 (*source: Bloomberg*).

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") $\geq$ 10 per cent.)	1 January 2013 – 30 June 2015
	Eligible Liquid Assets Ratio ("ELAR") $\geq$ 10 per cent.)	1 July 2015 onwards
	Advances to Stable Resources Ratio ("ASRR") $\leq$ 100 per cent.)	30 September 1986 onwards
Basel III ratios	Liquidity Coverage Ratio ("LCR") $\geq$ 100%)	January 2019 onwards
	Net Stable Funding Ratio ("NSFR") $\geq$ 100%)	January 2018 onwards

The UAE Central Bank's former 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, as of March 2018, the UAE Central Bank has approved the Bank's LCR and NSFR policies and procedures. The Bank is one of the few banks in the UAE to be approved by the Central Bank of the UAE to report LCR, with effect from March 2018.

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 NSFR is a long-standing ratio that recognised 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 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 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 No cap for UAE local government	Exempt	Exempt	Exempt
UAE local government and their non-commercial entities	25 per cent. for each non-commercial entity	100 per cent.	25 per cent.	100 per cent.
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.

Shari'a Compliance

Federal Law No. 14 of 2018 (which entered into force with effect from 23 September 2018) requires financial institutions licensed by the UAE Central Bank to operate their business activities in compliance with the rules, standards and general principles established by the Higher Shari'a Authority and, in certain circumstances, requires such financial institutions to obtain the consent of the Higher Shari'a Authority before undertaking certain licensed financial activities.

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.

The UAE has entered into double taxation arrangements with certain 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 ceased to 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 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 to Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income 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 as such Notes 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, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreqbank psc, Mizuho International plc, Nomura International plc, Société Générale and UBS AG London Branch (the "**Dealers**") have, pursuant to an amended and restated dealership agreement dated 28 November 2019 (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 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, except in accordance with Rule 903 of Regulation S under the Securities Act.

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) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (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 1.163-5I(2)(i)(D)(6) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010);
- (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 1.163-5I(2)(i)(D)(4)(ii) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010)) 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, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant 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 Final Terms (or are the subject of the offering contemplated by a Pricing Supplement) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
 - (ii) a customer within the meaning Directive (EU) 2016/97 ("**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

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) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) 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
- (c) 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 and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan,

except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations 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 with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and accordingly, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to any Note be distributed in the Republic of Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) the offering of the Notes has not been, and will not be, registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:
 - (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or
 - (b) 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; and
- (ii) any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under paragraph (i)(a) or paragraph (i)(b) 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. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**");
 - (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
- (iii) 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.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that, it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notification under Section 309B(1)I of the SFA – Unless otherwise stated in the applicable Final Terms (or Pricing Supplement, as applicable), all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public market 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 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of Capital Market Authority resolution number 3-123-2017 dated 27 December 2017, as amended by the Board of Capital Market Authority resolution number 1-104-2019 dated 30 September 2019 (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 Article 11 of 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 9 of the KSA Regulations or by way of a limited offer under Article 10 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 Article 9 or Article 10 of the KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (i) the Notes are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (ii) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

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. Bank Website

The Bank's website is <https://www.mashreqbank.com>. Information contained on the website does not form part of this prospectus.

3. 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. 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 update 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.

4. 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 MiFID II of the European Parliament and to be listed on the official list of the Luxembourg Stock Exchange.

Unlisted Notes may be issued pursuant to the Programme.

5. Validity of this Base Prospectus

For the avoidance of doubt, the Bank shall have no obligation to update this Base Prospectus after the end of its 12-month validity period.

6. 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 2018 and 31 December 2017 (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. The Deed of Covenant and the Memorandum and Articles of Association of the Bank will be available for viewing at <https://www.mashreqbank.com/uae/en/about-us/moa-aoa>.

Copies of the 2006 ISDA Definitions shall be available upon request from the registered office of the Bank.

7. 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.

8. 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.

9. Significant or Material Change

There has been no significant change in the financial performance or position of the Bank or the Bank and its subsidiaries since 30 September 2019.

There has been no material adverse change in the prospects of the Bank since 31 December 2018.

10. 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.

11. Conflicts of Interest

In accordance with the Commission Delegated Regulation (EU) No. 2019/980, 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.

12. Dealers Transacting with the Bank

Certain of the Dealers and their respective 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 respective 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 respective 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 respective 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 respective 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.

13. Auditors

The current auditors of the Bank are PricewaterhouseCoopers (Dubai Branch) ("**PwC**"). PwC is a registered audit firm in the UAE, operating under professional licences issued by the Dubai Economic Department and the UAE Ministry of Economy. PwC was appointed as the Bank's auditor on 1 January 2018. There is no professional institute of auditors in the UAE and, accordingly, PwC is not a member of a professional body in the UAE. All PwC professionals and partners directly involved in the audit are members of the institutes from where they received their professional qualifications. The address of PwC is Emaar Square, Building 4, Level 8, P.O. Box 11987, Dubai, UAE. The Bank's audited consolidated financial statements in respect of the financial year ended 31 December 2018 were approved at the annual general meeting of shareholders of the Bank which took place on 26 February 2019.

PwC has reviewed, without qualification, the Q3 2019 Interim Financial Statements in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as stated in PwC's review reports appearing herein.

PwC has audited, without qualification, the 2018 Financial Statements in accordance with International Standards on Auditing, as stated in their audit report included herein.

Deloitte & Touche (M.E.) – Dubai ("**Deloitte**") has audited the Bank's consolidated accounts, without qualification, in accordance with International Standards on Auditing for the financial year ended 31 December 2017. Deloitte is a registered audit firm in the UAE, operating under professional licenses issued by the Dubai Economic Department and the UAE Ministry of Economy.

15. 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.

16. Passporting

The Bank may, on or after the date of this Base Prospectus, make applications for one or more certificates of approval 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 (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), 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 Regulation. 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**")][MiFID II]; or (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.)

[Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore)(the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products "]/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

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 28 November 2019 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation 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]
[[•] +/- [•] per cent. Floating Rate]
[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]
[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) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iv) Fixed Coupon Amount(s): [•] per Calculation Amount

	(v)	Broken Amount(s):	[[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable]
	(vi)	Day Count Fraction (Condition 6(d)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)] [Applicable/Not Applicable]
14.	Floating Rate Note Provisions		
	(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 7(f)): [Actual/Actual (ICMA)]
[Actual/Actual (ISDA)]
[Actual/360]
[30/360]
[30E/360]
[Eurobond basis]
[30E/360 (ISDA)]
15. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (i) Accrual Yield: [•] per cent. per annum
 - (ii) Reference Price: [•]
 - (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
 - (iv) Day Count Fraction (Condition 9(h)): [Actual/Actual (ICMA)]
[Actual/360]
[Actual/Actual (ISDA)]
[30/360]
[30E/360]
[Eurobond basis]
[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 days' notice]
- [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]
(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) Estimate of total expenses related to the admission to trading: [•]

2. RATINGS

Ratings:

[S&P: [•]/[Not Applicable]]

[Moody's: [•]/[Not Applicable]]

[Fitch: [•]/[Not Applicable]]

(To include an explanation of the meaning of the ratings in relation to any rated Tranche)

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: [•]
- (iv) CFI: [•]/[Not Applicable]
- (v) FISN: [•]/[Not Applicable]
- 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]

8. **DISTRIBUTION**

[Syndicated/Non-syndicated]

(i) Method of Distribution:

[Not Applicable/*give names*]

(ii) If syndicated:

[Not Applicable/*give names*]

(A) Names of Dealers

(B) Stabilisation Manager(s), if any: [Not Applicable/*give names*]

(iii) If non-syndicated, name of Dealer: [•]

(iv) U.S. Selling Restrictions: [Reg S Compliance Category [1/2]; [TEFRA C/TEFRA D/TEFRA not applicable]

9. **REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS**

Reasons for the offer: [•] [See["Use of Proceeds"] in Base Prospectus/Give details] [If reasons differ from what is disclosed in the Base Prospectus, give details here.

Estimated net proceeds: [•]

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 (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), 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 Regulation. 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**")] [MiFID II]; or (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.)

[Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products "]/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

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 REGULATION (EU) 2017/1129 (THE "PROSPECTUS REGULATION") 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 28 November 2019 [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] [[•] +/- [•] per cent. Floating Rate] [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] [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)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(iv)	Fixed Coupon Amount(s):	[•] per Calculation Amount
(v)	Broken Amount(s):	[[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable]
(vi)	Day Count Fraction (Condition 6(d)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
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 (<i>specify for each short or long interest period</i>)
(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)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
15.	Zero Coupon Note Provisions	[Applicable/Not Applicable]
(i)	Accrual Yield:	[•] per cent. per annum
(ii)	Reference Price:	[•]
(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(iv)	Day Count Fraction (Condition 9(h)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [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 days' notice]
- [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]
(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]]

(To include an explanation of the meaning of the ratings in relation to any rated Tranche)

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: [•]

(iv) CFI: [•]/[Not Applicable]

(v) FISN: [•]/[Not Applicable]

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]

8. **DISTRIBUTION**

[Syndicated/Non-syndicated]

(i) Method of Distribution:

[Not Applicable/*give names*]

(ii) If syndicated:

[Not Applicable/*give names*]

(A) Names of Dealers

(B) Stabilisation Manager(s), if any: [Not Applicable/*give names*]

(iii) If non-syndicated, name of [•]
Dealer:

(iv) U.S. Selling Restrictions: [Reg S Compliance Category [1/2]; [TEFRA C/TEFRA D/TEFRA not applicable]

9. **REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS**

Reasons for the offer: [•] [See["Use of Proceeds"] in Base Prospectus/Give details] [If reasons differ from what is disclosed in the Base Prospectus, give details here.]

Estimated net proceeds: [•]

ANNEX C: INDEX TO FINANCIAL STATEMENTS

Interim Consolidated Financial Information and Review Report for the period from 1 January 2019 to 30 September 2019	F1
Report on Review of Interim Consolidated Financial Information	F3
Condensed Consolidated Statement of Financial Position	F4
Condensed Consolidated Statement of Profit (Un-audited)	F5
Condensed Consolidated Statement of Other Comprehensive Income (Un-audited).....	F6
Condensed Consolidated Statement of Changes in Equity (Un-audited)	F7
Condensed Consolidated Statement of Cash Flows (Un-audited).....	F9
Notes to Condensed Consolidated Financial Statements	F11
Audited Consolidated Financial Statements of Mashreqbank psc for the year ended 31 December 2018.....	F48
Independent Auditor's Report.....	F53
Consolidated Statement of Financial Position.....	F61
Consolidated Statement of Profit or Loss.....	F62
Consolidated Statement of Comprehensive Income.....	F63
Consolidated Statement of Changes in Equity	F64
Consolidated Statement of Cash Flows	F65
Notes to the Consolidated Financial Statements	F67
Audited Consolidated Financial Statements of Mashreqbank psc for the year ended 31 December 2017.....	F206
Independent Auditor's Report.....	F208
Consolidated Statement of Financial Position.....	F216
Consolidated Statement of Profit or Loss.....	F217
Consolidated Statement of Comprehensive Income.....	F218
Consolidated Statement of Changes in Equity	F219
Consolidated Cash Flow Statement.....	F220
Notes to the Consolidated Financial Statements	F222

Mashreqbank PSC Group

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

Mashreqbank PSC Group

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

Contents	Pages
Review report on condensed consolidated interim financial information	1
Condensed consolidated statement of financial position	2
Condensed consolidated statement of profit or loss	3
Condensed consolidated statement of other comprehensive income	4
Condensed consolidated statement of changes in equity	5-6
Condensed consolidated statement of cash flows	7-8
Notes to the condensed consolidated interim financial information	9 – 45



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

Introduction

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

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
14 October 2019

Jacques Fakhoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Mashreqbank PSC Group

Condensed consolidated statement of financial position as at 30 September 2019

		30 September 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
	Notes		
ASSETS			
Cash and balances with central banks		16,847,428	20,147,826
Deposits and balances due from banks		26,779,678	23,009,168
Other financial assets measured at fair value	6	3,065,321	1,737,759
Other financial assets measured at amortised cost	6	10,697,588	11,681,234
Investment in associate		29,355	-
Loans and advances measured at amortised cost	7	57,939,607	56,353,340
Islamic financing and investment products measured at amortised cost	8	14,230,681	12,916,255
Acceptances		12,346,007	9,782,129
Other assets		2,942,930	2,332,423
Investment properties	9	483,585	489,885
Property and equipment	10	1,511,955	1,481,588
Total assets		146,874,135	139,931,607
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	9,231,485	9,059,963
Repurchase agreements with banks		378,066	2,116,677
Customers' deposits	12	74,091,206	72,521,856
Islamic customers' deposits	13	10,017,370	10,696,707
Acceptances		12,346,007	9,782,129
Other liabilities		5,705,894	5,266,894
Medium-term notes	14	11,488,114	8,185,390
Insurance and life assurance funds		1,703,880	1,536,302
Total liabilities		124,962,022	119,165,918
EQUITY			
Capital and reserves			
Issued and paid up capital	15	1,775,308	1,775,308
Statutory and legal reserves		907,714	903,877
General reserve		312,000	312,000
Currency translation reserve		(87,036)	(81,380)
Investments revaluation reserve		(280,634)	(242,733)
Cash flow hedge reserve		4,877	(4,124)
Retained earnings		18,591,340	17,481,156
Equity attributable to owners of the Parent		21,223,569	20,144,104
Non-controlling interests	16	688,544	621,585
Total equity		21,912,113	20,765,689
Total liabilities and equity		146,874,135	139,931,607



Abdulla Bin Ahmad Al Ghurair
Chairman



Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

The accompanying notes form an integral part of this condensed consolidated interim financial information (2)

Mashreqbank PSC Group

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

Notes	For the three month period ended 30 September		For the nine month period ended 30 September	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Interest income	1,427,228	1,443,382	4,385,420	4,024,384
Income from Islamic financing and investment products	193,896	155,471	569,643	399,945
Total interest income and income from Islamic financing and investment products	1,621,124	1,598,853	4,955,063	4,424,329
Interest expense	(651,553)	(590,184)	(1,980,574)	(1,453,233)
Distribution to depositors – Islamic products	(71,644)	(71,082)	(226,924)	(179,476)
Net interest income and net income from Islamic products	897,927	937,587	2,747,565	2,791,620
Fee and commission income	695,556	668,378	2,149,831	2,124,120
Fee and commission expense	(367,494)	(345,097)	(1,111,767)	(1,061,466)
Net fee and commission income	328,062	323,281	1,038,064	1,062,654
Net investment income	56,179	6,977	110,671	25,340
Other income, net	170,210	222,177	630,023	714,679
Operating income	1,452,378	1,490,022	4,526,323	4,594,293
General and administrative expenses	(677,350)	(637,275)	(1,993,671)	(1,947,251)
Allowances for impairment, net	(223,052)	(248,573)	(704,771)	(837,652)
Profit before tax	551,976	604,174	1,827,881	1,809,390
Tax expense	(2,085)	(6,057)	(15,787)	(27,515)
Profit for the period	549,891	598,117	1,812,094	1,781,875
Attributed to:				
Owners of the Parent	535,752	586,632	1,757,389	1,748,014
Non-controlling interests	14,139	11,485	54,705	33,861
	549,891	598,117	1,812,094	1,781,875
Earnings per share (AED)	3.02	3.31	9.90	9.85

The accompanying notes form an integral part of this condensed consolidated interim financial information. (3)

Mashreqbank PSC Group

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

	For the three month period ended 30 September		For the nine month period ended 30 September	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Profit for the period	549,891	598,117	1,812,094	1,781,875
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (equity instruments)	(25,551)	(68,582)	42,986	(76,062)
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(6,442)	(20,287)	(6,457)	(35,909)
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (debt instruments)	(2,790)	(14,948)	4,909	(10,535)
Cash flow hedges - fair value gain arising during the period	532	-	9,001	-
Total other comprehensive income for the period	(34,251)	(103,817)	50,439	(122,506)
Total comprehensive income for the period	515,640	494,300	1,862,533	1,659,369
Attributed to:				
Owners of the Parent	505,486	495,791	1,795,525	1,647,421
Non-controlling interests	10,154	(1,491)	67,008	11,948
	515,640	494,300	1,862,533	1,659,369

The accompanying notes form an integral part of this condensed consolidated interim financial information. (4)

Mashreqbank PSC Group

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

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	attributed to owners of the Company AED'000
Balance at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	17,618,669	20,375,447
Changes on initial application of IFRS 9	-	-	-	-	-	(1,392,640)	(1,392,640)
Restated balance at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	16,226,029	18,982,807
Profit for the period	-	-	-	-	-	1,748,014	1,748,014
Other comprehensive loss	-	-	-	(28,899)	(71,694)	-	(100,593)
Total comprehensive (loss) / income for the period	-	-	-	(28,899)	(71,694)	1,748,014	1,647,421
Additional contribution to non-controlling interests	-	-	-	-	-	-	-
Transfer to statutory and legal reserves	-	2,256	-	-	-	(2,256)	-
Payment of dividends (Note 15 and 16)	-	-	-	-	-	(710,123)	(710,123)
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	13,201	(13,201)	-
Balance at 30 September 2018	<u>1,775,308</u>	<u>903,877</u>	<u>312,000</u>	<u>(88,062)</u>	<u>(243,482)</u>	<u>17,248,463</u>	<u>19,910,104</u>

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

Mashreqbank PSC Group

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

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156
Changes on initial application of IFRS 16 (Note 3.9)	-	-	-	-	-	-	(5,937)
Restated balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,475,219
Profit for the period	-	-	-	-	-	-	1,757,389
Other comprehensive income	-	-	-	(5,656)	34,791	9,001	-
Total comprehensive income for the period	-	-	-	(5,656)	34,791	9,001	1,757,389
Payment of dividends (Note 15 and 16)	-	-	-	-	-	-	(710,123)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(72,692)	-	72,692
Transfer to statutory and legal reserves	-	3,837	-	-	-	-	(3,837)
Balance at 30 September 2019	1,775,308	907,714	312,000	(87,036)	(280,634)	4,877	18,591,340

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

Mashreqbank PSC Group

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

	For the nine month period ended 30 September	
	2019 AED '000	2018 AED '000
Cash flows from operating activities		
Profit before taxation for the period	1,827,881	1,809,390
Adjustments for:		
Depreciation of property and equipment	120,444	113,840
Allowance for impairment, net	704,771	837,652
(Gain) / Loss on disposal of property and equipment	(306)	3,540
Unrealised loss on other financial assets held at Fair Value Through Profit or Loss (FVTPL)	12,348	5,331
Fair value adjustment of derivatives	23,185	3,933
Dividend income from financial assets measured at FVTOCI	(22,766)	(15,465)
Realised gain on disposal of other financial assets	(99,463)	-
Fair value adjustment of property and equipment	3,250	-
Loss on sale of investment property	600	-
Changes in operating assets and liabilities		
(Increase) / Decrease in deposits with central banks	(2,743,879)	2,543,615
Decrease in deposits and balances due from banks maturing after three months	2,414,190	1,311,822
Increase in other financial assets measured at FVTPL	(676,083)	(56,837)
Increase in loans and advances measured at amortised cost	(2,198,330)	(5,729,017)
Increase in Islamic financing and investment products measured at amortised cost	(1,382,954)	(2,673,008)
Increase in other assets	(2,986,850)	(3,548,820)
Decrease in deposits and balances due to banks	(183,724)	(3,837,710)
Increase in customers' deposits	1,569,350	4,526,071
(Decrease) / increase in Islamic customers' deposits	(679,337)	1,646,092
Increase in insurance and life assurance funds	167,577	93,110
Increase in other liabilities	3,002,879	4,456,223
(Decrease) in repurchase agreements with banks	(858,410)	(223,817)
Taxes paid	(15,787)	(27,515)
Net cash (used in) / generated from operating activities	(2,001,414)	1,238,430
Cash flows from investing activities		
Purchase of property and equipment	(254,074)	(179,416)
Proceeds from sale of property and equipment	6,166	2,309
Proceeds from sale of investment property	2,450	-
Net increase / (decrease) in non-trading investments	320,613	(290,828)
Dividend income received from other financial assets measured at FVTOCI	22,766	15,465
Net cash generated from / (used in) investing activities	97,921	(452,470)

The accompanying notes form an integral part of this condensed consolidated interim financial information. (7)

Mashreqbank PSC Group

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

	For the nine month period ended 30 September	
	2019	2018
	AED '000	AED '000
Cash flows from financing activities		
Dividends paid	(710,123)	(726,778)
Medium term notes issued during the period	8,906,409	6,475,402
Medium term notes redeemed during the period	(5,616,797)	(4,907,776)
Additional contribution to non-controlling interests	-	1,231
Net cash generated from financing activities	2,579,489	842,079
Net increase in cash and cash equivalents	675,996	1,628,039
Net foreign exchange difference	(5,656)	(28,899)
Cash and cash equivalents at beginning of the period (Note 19)	20,707,074	21,155,837
Cash and cash equivalents at end of the period (Note 19)	21,377,414	22,754,977

The accompanying notes form an integral part of this condensed consolidated interim financial information. (8)

Mashreqbank PSC Group

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

1 General information

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

At 30 September 2019, Mashreqbank PSC Group (the “Group”) comprises of the Bank and the following direct subsidiaries and associates:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
<i>Subsidiary</i>				
Oman Insurance Company (PSC) Group	United Arab Emirates	63.94	63.94	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	100.00	Payment service provider
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
<i>Associate</i>				
Emirates Digital Wallet LLC	United Arab Emirates	23.22	23.22	Digital wallet service

Mashreqbank PSC Group

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

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

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

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

- **IFRS 16, ‘Leases’** - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

- **Amendment to IFRS 9, ‘Financial instrument’** - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss.
- **IFRIC 23 Uncertainty over Income Tax Treatments** – The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers
 - Whether tax treatments should be considered collectively
 - Assumptions for taxation authorities
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates
 - The effect of changes in facts and circumstances

Mashreqbank PSC Group

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

New and revised IFRS	Effective for annual periods beginning on or after
• IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2022, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2022
• Amendments to IFRS 3 - This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.	1 January 2020
• Amendments to IAS 1 and IAS 8 - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	1 January 2020

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies

3.1 Basis of preparation

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

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

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

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

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

3.2 Basis of consolidation

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets

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

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

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

Classification of financial assets

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss ('FVTPL'), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized.
- **Fair value through other comprehensive income ('FVTOCI');** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income ('OCI'), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net investment income'.
- **Fair value through profit or loss ('FVTPL');** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

(a) Equity instruments

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

(a) Equity instruments (continued)

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

Amortised cost and effective interest method

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

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

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

(ii) Modification of loans

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(ii) Modification of loans (continued)

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

(iii) Derecognition other than on a modification

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

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

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

3.4 Financial liabilities

Classification and subsequent measurement

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

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

Derecognition

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

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

3.5 Financial guarantee contracts and loan commitments

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.6 Foreign exchange gains and losses

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

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

3.7 Islamic financing and investment products

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

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

(i) Accounting policy

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

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

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

(ii) Revenue recognition policy

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products (continued)

(ii) Revenue recognition policy (continued)

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

(iii) Islamic customers' deposits and distributions to depositors

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

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

3.8 Investment properties

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.9 Leasing

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

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

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

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

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

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

Changes in accounting policies

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.9 Leasing (continued)

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

The associated right-of-use assets for property leases were measured on a basis as if the new rules had always been applied. Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. As at 30 September 2019, right-of-use asset of AED 114 million has been included in property and equipment.

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

3.10 Financial risk management

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

3.11 Cash and cash equivalents

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

4 Credit risk

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

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

Mashreqbank PSC Group

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

4 Credit risk (continued)

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

	30 September 2019 (un-audited)			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	AED (in million)			
Loans and advances (including Islamic financing and investment products measured at amortised cost)				
Gross carrying amount	69,083	3,883	3,284	76,250
Loss allowance	(411)	(1,671)	(1,998)	(4,080)
Carrying amount	<u>68,672</u>	<u>2,212</u>	<u>1,286</u>	<u>72,170</u>
	31 December 2018 (audited)			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	AED (in million)			
Loans and advances (including Islamic financing and investment products measured at amortised cost)				
Gross carrying amount	64,761	5,345	2,783	72,889
Loss allowance	(445)	(1,518)	(1,657)	(3,620)
Carrying amount	<u>64,316</u>	<u>3,827</u>	<u>1,126</u>	<u>69,269</u>

During the period ended 30 September 2019, loans and advances and Islamic financing assets amounting to AED 1,388 million were transferred from stage 1 to stage 2, whereas AED 363 million were transferred from stage 2 to stage 1, AED 296 million were transferred from stage 1 to stage 3, and AED 450 million were transferred from stage 2 to stage 3. The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investment products measured at amortised cost have been disclosed in notes 7 and 8 respectively.

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

	30 September 2019 (un-audited)			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	AED (in million)			
Off-balance sheet items				
Guarantees	40,827	3,480	-	44,307
Letters of credit	7,878	128	-	8,006
	<u>48,705</u>	<u>3,608</u>	<u>-</u>	<u>52,313</u>

Mashreqbank PSC Group

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

4 Credit risk (continued)

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

During the period ended 30 September 2019, off balance sheet exposures (LCs and LGs) amounting to AED 250 million were transferred from stage 1 to stage 2, AED 111 million transferred from stage 2 to stage 1. Total provision against off balance sheet exposures (LCs, LGs and commitment) amounted to AED 188 million as at 30 September 2019 (31 December 2018: AED 151 million).

4.3 As at 30 September 2019, other assets and acceptances include financial assets of AED 12,004 million which have been classified under stage 1, AED 1,140 million has been classified under stage 2 and AED 370 million has been classified under stage 3. Exposure of AED 364 million were transferred from stage 1 to 2 during the period ended 30 September 2019. Total provision under other assets amounts to AED 479 million as at 30 September 2019 (31 December 2018: AED 524 million).

4.4 As at 30 September 2019, the Group has recorded ECL of AED 73 million (31 December 2018: AED 67 million) in respect of deposits and balances due from banks and AED 31 million (31 December 2018: AED 56 million) in respect of other financial assets measured at amortised cost.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

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

Mashreqbank PSC Group

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

6 Other financial assets

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	863,123	283,013
Equities	14,136	10,972
Mutual and other funds	678,383	597,921
	<u>1,555,642</u>	<u>891,906</u>
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	1,038,402	296,160
Equities	471,277	549,693
	<u>1,509,679</u>	<u>845,853</u>
Total other financial assets measured at fair value (A)	<u>3,065,321</u>	<u>1,737,759</u>
(iii) Other financial assets measured at amortised cost		
Debt securities	10,729,017	11,737,563
Less: Allowance for impairment	(31,429)	(56,329)
Total other financial assets measured at amortised cost (B)	<u>10,697,588</u>	<u>11,681,234</u>
Total other financial assets [(A)+(B)]	<u>13,762,909</u>	<u>13,418,993</u>

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balances within the U.A.E.	2,498,300	2,149,263
Balances outside the U.A.E.	11,296,038	11,326,059
	<u>13,794,338</u>	<u>13,475,322</u>
Less: Allowance for impairment	(31,429)	(56,329)
	<u>13,762,909</u>	<u>13,418,993</u>

Mashreqbank PSC Group

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

6 Other financial assets (continued)

- (c) During the period from 1 January 2019 to 30 September 2019, dividends received from financial assets measured at FVTOCI amounting to AED 23 million (period ended 30 September 2018: AED 15 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.
- (d) Other financial assets measured at FVTPL include AED 225 million (31 December 2018: AED 200 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and the fair value of these funds is based on the quoted market price.
- (e) At 30 September 2019, certain financial assets measured at amortised cost included debt securities with an aggregate notional value of AED 375 million (fair value of AED 376 million) [31 December 2018: notional value of AED 1,721 million (fair value of AED 1,693 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 378 million (31 December 2018: AED 1,503 million).

7 Loans and advances measured at amortised cost

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Loans	53,734,928	53,005,765
Overdrafts	5,476,913	3,942,492
Credit cards	1,905,244	2,247,672
Others	714,402	637,994
	<u>61,831,487</u>	<u>59,833,923</u>
Less: Allowance for impairment	<u>(3,891,880)</u>	<u>(3,480,583)</u>
	<u>57,939,607</u>	<u>56,353,340</u>

Mashreqbank PSC Group

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

7 Loans and advances measured at amortised cost (continued)

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Manufacturing	7,745,225	6,788,348
Construction	6,691,789	5,920,478
Trade	12,364,538	10,671,455
Transport and communication	3,597,209	3,779,934
Services	6,042,514	5,701,896
Financial institutions	1,320,588	1,043,886
Personal	8,226,440	8,754,351
Residential mortgage	5,538,509	5,654,351
Government and related enterprises	10,304,675	11,519,224
	<u>61,831,487</u>	<u>59,833,923</u>
Less: Allowance for impairment	<u>(3,891,880)</u>	<u>(3,480,583)</u>
	<u>57,939,607</u>	<u>56,353,340</u>

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	3,480,583	3,069,205
Initial application of IFRS 9	-	907,731
Impairment allowance for the period / year	376,430	669,752
Interest in suspense	210,061	281,532
Exchange rate and other adjustments	35,054	2,468
Written off during the period / year	<u>(210,248)</u>	<u>(1,450,105)</u>
Balance at the end of the period / year	<u>3,891,880</u>	<u>3,480,583</u>

(d) The allowance for impairment includes a specific provision of AED 1,880 million for stage 3 loans of the Group.

Mashreqbank PSC Group

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

8 Islamic financing and investment products measured at amortised cost

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Financing		
Murabaha	7,598,493	7,181,840
Ijara	6,774,930	6,036,980
	<u>14,373,423</u>	<u>13,218,820</u>
Investment		
Mudaraba	18,466	18,466
Wakala	266,157	10,948
	<u>284,623</u>	<u>29,414</u>
Total	<u>14,658,046</u>	<u>13,248,234</u>
Less: Unearned income	(239,696)	(192,923)
Allowance for impairment	(187,669)	(139,056)
	<u>14,230,681</u>	<u>12,916,255</u>

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Manufacturing	580,086	520,900
Construction	2,854,342	3,124,317
Trade	1,619,088	1,464,250
Transport and communication	591,749	345,286
Services	4,675,755	4,238,157
Financial institutions	1,144,098	734,464
Personal	2,255,316	2,115,100
Residential mortgage	6,083	6,171
Government and related enterprises	931,529	699,589
Total	<u>14,658,046</u>	<u>13,248,234</u>
Less: Unearned income	(239,696)	(192,923)
Allowance for impairment	(187,669)	(139,056)
	<u>14,230,681</u>	<u>12,916,255</u>

Mashreqbank PSC Group

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

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

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	139,056	117,127
Initial application of IFRS 9	-	21,877
Impairment allowance for the period / year	56,781	122,556
Profit in suspense	1,832	158
Exchange rate and other adjustments	(10,000)	(50)
Written off during the period / year	-	(122,612)
Balance at the end of the period / year	<u>187,669</u>	<u>139,056</u>

- (d) The allowance for impairment includes a specific provision of AED 118 million for stage 3 Islamic financing and investment exposure of the Group.

9 Investment properties

	30 September 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
At fair value		
Balance at beginning of the period / year	489,885	517,691
Change in fair value during the period	(3,250)	(27,806)
Disposal during the period	(3,050)	-
Balance at the end of the period / year	<u>483,585</u>	<u>489,885</u>

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

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

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

10 Property and equipment

During the period, the Group purchased AED 254 million (period ended 30 September 2018: AED 179 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 6 million (period ended 30 September 2018: AED 6 million).

(30)

Mashreqbank PSC Group

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

11 Deposits and balances due to banks

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

	30 September 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
Time	5,054,509	5,697,662
Demand	1,795,517	1,941,701
Overnight	2,381,459	1,420,600
	<u>9,231,485</u>	<u>9,059,963</u>

12 Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Current and other accounts	33,015,459	33,398,960
Saving accounts	2,976,426	3,038,875
Time deposits	38,099,321	36,084,021
	<u>74,091,206</u>	<u>72,521,856</u>

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Current and other accounts	2,440,406	4,588,535
Saving accounts	117,614	145,446
Time deposits	7,459,350	5,962,726
	<u>10,017,370</u>	<u>10,696,707</u>

Mashreqbank PSC Group

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

14 Medium-term notes

	30 September 2019 (un-audited) AED '000	31 December 2018 (audited) AED '000
Medium term notes	<u>11,488,114</u>	<u>8,185,390</u>

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

Year	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
2019	678,950	6,285,157
2020	4,408,413	978,310
2021	1,512,530	367,300
2022	1,407,176	337,916
2023	250,717	216,707
2024	3,193,798	-
2029	36,530	-
	<u>11,488,114</u>	<u>8,185,390</u>

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 nine month period ended 30 September 2019, new medium-term notes of AED 8.91 billion were issued and AED 5.62 billion of medium-term notes were redeemed.

15 Issued and paid up capital

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

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

Mashreqbank PSC Group

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

16 Non-controlling interests

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	621,585	762,974
Initial application of IFRS 16	(49)	-
Initial application of IFRS 9	-	(126,080)
Profit for the period / year	54,705	5,018
Other comprehensive income / (loss) for the period / year	12,303	(8,135)
Additional contribution received during the period	-	4,463
Dividends paid	-	(16,655)
Balance at the end of the period / year	<u>688,544</u>	<u>621,585</u>

17 General and administrative expenses

General and administrative expenses include senior management remuneration and director fees of AED 110 million for the nine month period ended 30 September 2019 (nine month period ended 30 September 2018: AED 113 million).

18 Earnings per share

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

	For the nine month period ended	
	30 September 2019 (un-audited)	30 September 2018 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	1,757,389	1,748,014
Weighted average number of shares in issue	<u>177,530,823</u>	<u>177,530,823</u>
Basic earnings per share (AED)	<u>9.90</u>	<u>9.85</u>

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

Mashreqbank PSC Group

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

19 Cash and cash equivalents

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000	30 September 2018 (un-audited) AED'000
Cash on hand	762,074	919,071	678,974
Current accounts and other balances with central banks	5,385,740	8,973,020	5,763,783
Certificates of deposit maturing within 3 months	1,700,000	4,000,000	4,500,000
Deposits and balances due from banks maturing within 3 months	21,101,954	14,912,292	16,179,637
Balances due to banks and financial institutions maturing within 3 months	(7,194,288)	(6,839,041)	(4,143,600)
Repurchase agreements with banks maturing within 3 months	(378,066)	(1,258,268)	(223,817)
	<u>21,377,414</u>	<u>20,707,074</u>	<u>22,754,977</u>

20 Contingent liabilities

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Guarantees	44,307,561	43,446,508
Letters of credit	8,005,647	8,051,513
	<u>52,313,208</u>	<u>51,498,021</u>

Mashreqbank PSC Group

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

21 Derivative financial instruments

30 September 2019 (un-audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for trading:			
Forward foreign exchange contracts	207,176	214,249	51,885,077
Foreign exchange options (bought)	-	25,867	4,523,144
Foreign exchange options (sold)	3,319	-	4,488,121
Interest rate swaps	542,767	538,380	19,443,287
Credit default swaps	-	147	11,691
Futures contracts purchased (Customer)	-	5,902	210,205
Futures contracts sold (Customer)	4,829	-	121,282
Futures contracts sold (Bank)	5,902	72	225,512
Futures contracts purchased (Bank)	22	4,829	123,261
	<u>764,015</u>	<u>789,446</u>	<u>81,031,580</u>
Held as fair value and cash flow hedges:			
Cross currency swaps	<u>28,771</u>	<u>26,497</u>	<u>900,218</u>
	<u>792,786</u>	<u>815,943</u>	<u>81,931,798</u>

30 September 2019 (un-audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other assets				
Positive fair value of derivatives	<u>-</u>	<u>792,786</u>	<u>-</u>	<u>792,786</u>
Other liabilities				
Negative fair value of derivatives	<u>-</u>	<u>815,943</u>	<u>-</u>	<u>815,943</u>

Mashreqbank PSC Group

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

21 Derivative financial instruments (continued)

31 December 2018 (audited)

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

31 December 2018 (audited)

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

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

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

22 Seasonality of results

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

Mashreqbank PSC Group

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

23 Related party transactions

- (a) Certain related parties (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family members who own 88.07% (31 December 2018: 88.08%) of the issued and paid up capital. The remaining shares are widely held by other parties.
- (c) Related party balances included in the condensed consolidated statement of financial position are as follows:

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balances		
Loans and advances	<u>3,626,730</u>	<u>3,853,217</u>
Deposits/ financial instruments under lien	<u>934,387</u>	<u>1,112,073</u>
Letters of credit and guarantee	<u>1,684,057</u>	<u>1,269,230</u>

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

	30 September 2019 (un-audited) AED'000	30 September 2018 (un-audited) AED'000
Transactions		
Interest income	<u>144,512</u>	<u>109,936</u>
Interest expense	<u>1,753</u>	<u>4,940</u>
Other income, net	<u>42,068</u>	<u>28,131</u>

24 Segmental information

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

Reportable segments

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

(37)

Mashreqbank PSC Group

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

24 Segmental information (continued)

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

1. The Domestic Corporate segment comprises of corporate and commercial banking customers in the U.A.E. trade finance, contracting finance, project finance, investment banking, corporate advisory, cash management, and Islamic financing are the major products and / or business lines making up this segment.
2. The Domestic Retail segment includes products and services offered to individuals or small businesses within U.A.E. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services, and Islamic financing.
3. The Treasury & Capital Markets segment consists of customer flow business and proprietary business. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.
4. The International Banking segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection and risk participations.
5. The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.
6. The Head office consists of certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

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

Notes to the condensed consolidated interim financial information for the period from 1 Jan (continued)

Reportable segments (continued)

F-41

Mashreqbank PSC Group

Notes to the condensed consolidated interim financial information for the period from 1 January 2018 to 30 September 2018 (continued)

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2018 to 30 September 2018 (unaudited)				
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Insurance AED'000
Net interest income and earnings from					
Islamic products	874,823	836,920	232,685	532,527	40,000
Other income, net	342,736	448,038	301,982	384,517	319,000
Total operating income	<u>1,217,559</u>	<u>1,284,958</u>	<u>534,667</u>	<u>917,044</u>	<u>360,000</u>
General and administrative expenses					
Allowances for impairment					
Profit before taxes					
Tax expense					
Profit for the period					
Attributed to:					
Owners of the Parent					
Non-controlling interests					

	31 December 2018 (audited)				
Segment Assets	<u>44,062,069</u>	<u>15,333,110</u>	<u>19,987,996</u>	<u>36,906,173</u>	<u>4,110,000</u>
Segment Liabilities	<u>41,688,270</u>	<u>24,346,359</u>	<u>16,781,597</u>	<u>22,080,756</u>	<u>2,452,000</u>

Mashreqbank PSC Group

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

25 Fair value of financial instruments

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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

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

Mashreqbank PSC Group

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

25 Fair value of financial instruments (continued)

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

Other financial assets	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs
	30 September 2019		31 December 2018		
	(un-audited) AED'000		(audited) AED'000		
Other financial assets measured at FVTPL					
Quoted debt investments	330,409		20,724	Level 1	Quoted bid prices in an active market
Quoted equity investments	13,894		10,752	Level 1	Quoted bid prices in an active market
Unquoted debt investments	532,714		207,194	Level 2	Based on the recent similar transaction in market
Unquoted debt investments	-		55,095	Level 3	Based on discounted cash flow model
Mutual and other funds	678,383		597,921	Level 2	Quoted prices in secondary market.
Unquoted equity investments	242		220	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.
	1,555,642		891,906		

Mashreqbank PSC Group

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

25 Fair value of financial instruments (continued)

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

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	30 September 2019	31 December 2018		
	(un-audited) AED'000	(audited) AED'000		
Other financial assets measured at FVTOCI				
Quoted equity investments	405,355	356,824	Level 1	Quoted bid prices in an active market
Quoted debt investments	1,038,402	296,160	Level 1	Quoted bid prices in an active market
Unquoted equity investments	65,922	192,869	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.
	1,509,679	845,853		
	3,065,321	1,737,759		

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

Mashreqbank PSC Group

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

25 Fair value of financial instruments (continued)

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	55,315	60,058
Change in fair value	(55,073)	(4,743)
Balance at the end of the period / year	<u>242</u>	<u>55,315</u>

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Balance at the beginning of the period / year	192,869	259,886
Purchases	2,149	-
Disposals	(149,956)	(7,569)
Change in fair value	20,860	(59,448)
Balance at the end of the period / year	<u>65,922</u>	<u>192,869</u>

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

Mashreqbank PSC Group

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

26 Capital adequacy ratio

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

The Bank must comply with the following minimum requirement:

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

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

	30 September 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Capital base		
Tier 1 capital	21,173,579	19,396,666
Tier 2 capital	1,527,971	1,422,061
Total capital base (A)	22,701,550	20,818,727
Risk-weighted assets		
Credit risk	122,237,672	113,764,844
Market risk	2,735,544	2,253,118
Operational risk	10,527,207	10,527,207
Total risk-weighted assets (B)	135,500,423	126,545,169
Capital adequacy ratio (%) [(A)/(B) x 100]	16.75%	16.45%

27 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information on pages 2 to 45 were approved by the Board of Directors on 14 October 2019.

2018 CONSOLIDATED FINANCIAL STATEMENTS

WE MAKE POSSIBLE

Mashreqbank PSC Group

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

Contents	Pages
Board of Directors' report	1
Independent auditor's report	2 - 9
Consolidated statement of financial position	10
Consolidated statement of profit or loss	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 – 152

Mashreqbank PSC Group

Board of Directors' report

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

Incorporation and registered offices

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

Principal activities

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

Financial position and results

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

Dividend

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

Directors

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

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

Auditors

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

By order of the Board of Directors


Abdulla Bin Ahmad Al Ghurair
 Chairman
 21 January 2019



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

Report on the Audit of the Consolidated Financial Statements

Our opinion

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

What we have audited

The Group’s consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



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

Our audit approach

Key Audit Matters	• Measurement of Expected Credit Losses

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

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

Key audit matters

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



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

Key audit matters (continued)

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



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

Key audit matters (continued)

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



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

Other information

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

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

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

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

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

Report on other legal and regulatory requirements

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

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



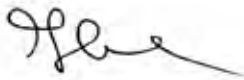
*Independent auditor's report to the shareholders of
Mashreqbank PSC Group (continued)*

Report on other legal and regulatory requirements (continued)

- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.
- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2018.

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

PricewaterhouseCoopers
21 January 2019



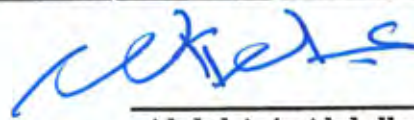
Mohamed Elborno
Registered Auditor Number 946
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

		As at 31 December			
		2018		2017	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	20,147,826	5,485,387	16,899,076	4,600,892
Deposits and balances due from banks	6	23,009,168	6,264,407	20,135,427	5,482,011
Other financial assets measured at fair value	7	1,737,759	473,117	1,580,545	430,314
Other financial assets measured at amortised cost	7	11,681,234	3,180,298	12,583,404	3,425,920
Loans and advances measured at amortised cost	8	56,353,340	15,342,592	53,394,165	14,536,936
Islamic financing and investment products measured at amortised cost	9	12,916,255	3,516,541	9,339,467	2,542,735
Other assets	10	2,332,423	635,018	3,015,667	821,037
Acceptances		9,782,129	2,663,253	6,379,818	1,736,950
Investment properties	12	489,885	133,375	517,691	140,945
Property and equipment	13	1,481,588	403,373	1,342,976	365,635
Total assets		139,931,607	38,097,361	125,188,236	34,083,375
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	9,059,963	2,466,638	9,313,430	2,535,647
Repurchase agreements with banks	15	2,116,677	576,280	557,183	151,697
Customers' deposits	16	72,521,856	19,744,584	69,380,208	18,889,248
Islamic customers' deposits	17	10,696,707	2,912,254	6,680,874	1,818,915
Other liabilities	18	5,266,894	1,433,949	3,941,576	1,073,122
Acceptances		9,782,129	2,663,253	6,379,818	1,736,950
Medium-term loans	19	8,185,390	2,228,530	6,226,032	1,695,081
Insurance and life assurance funds	20	1,536,302	418,269	1,582,695	430,900
Total liabilities		119,165,918	32,443,757	104,061,816	28,331,560
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	1,775,308	483,340	1,775,308	483,340
Statutory and legal reserves	21(b)	903,877	246,087	901,621	245,473
General reserve	21(c)	312,000	84,944	312,000	84,944
Currency translation reserve	21(d)	(81,380)	(22,156)	(59,163)	(16,108)
Investments revaluation reserve	21(e)	(242,733)	(66,086)	(184,989)	(50,365)
Cash flow hedge reserve	21(f)	(4,124)	(1,123)	-	-
Retained earnings		17,481,156	4,759,367	17,618,669	4,796,806
Equity attributable to owners of the Parent		20,144,104	5,484,373	20,363,446	5,544,090
Non-controlling interests	22	621,585	169,231	762,974	207,725
Total equity		20,765,689	5,653,604	21,126,420	5,751,815
Total liabilities and equity		139,931,607	38,097,361	125,188,236	34,083,375


Abdulla Bin Ahmad Al Ghurair
Chairman


Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

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

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

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2018		2017	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	2,065,218	562,270	2,089,530	568,889
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments) [Note 7(k)]	(66,530)	(18,113)	47,133	12,832
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Currency translation adjustment	(22,829)	(6,215)	240,636	65,515
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments) [Note 7(k)]	(6,093)	(1,659)	-	-
Loss on hedging instruments designated as hedges of net investment in foreign operations	(5,073)	(1,381)	(1,237)	(337)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	(4,124)	(1,123)	(7,624)	(2,076)
Total other comprehensive (loss)/income for the year	(104,649)	(28,491)	278,908	75,934
Total comprehensive income for the year	1,960,569	533,779	2,368,438	644,823
Attributable to:				
Owners of the Parent	1,963,686	534,627	2,315,933	630,529
Non-controlling interests	(3,117)	(848)	52,505	14,294
	1,960,569	533,779	2,368,438	644,823

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

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedging reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2017	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,310,198	18,757,636	728,009	19,485,645
Profit for the year ended 31 December 2017	-	-	-	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	2,052,320	2,052,320	37,210	2,089,530
Total comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	-	263,613	15,295	278,908
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	31,456	-	(31,456)	-	-	-
Transfer to statutory and legal reserves	-	2,270	-	-	-	-	(2,270)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	(17,540)	(727,663)
Balance at 31 December 2017	1,775,308	901,621	312,000	(59,163)	(184,989)	-	17,618,669	20,363,446	762,974	21,126,420
Changes on initial application of IFRS 9 [Note 3.3(a)]	-	-	-	-	-	-	(1,472,905)	(1,472,905)	(126,080)	(1,598,985)
Restated balances as at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	-	16,145,764	18,890,541	636,894	19,527,435
Profit for the year ended 31 December 2018	-	-	-	-	-	-	2,060,200	2,060,200	5,018	2,065,218
Other comprehensive loss for the year	-	-	-	(22,217)	(70,173)	(4,124)	-	(96,514)	(8,135)	(104,649)
Total comprehensive income/(loss) for the year	-	-	-	(22,217)	(70,173)	(4,124)	2,060,200	1,963,686	(3,117)	1,960,569
Additional contribution to non-controlling interests	-	-	-	-	-	-	-	-	4,463	4,463
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	12,429	-	(12,429)	-	-	-
Transfer to statutory and legal reserves	-	2,256	-	-	-	-	(2,256)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	(16,655)	(726,778)
Balance at 31 December 2018	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156	20,144,104	621,585	20,765,689

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

Mashreqbank PSC Group

Consolidated statement of cash flows

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

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

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

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

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

Mashreqbank PSC Group

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

1 General information

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

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

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

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

2.1 New and revised IFRS applied on the consolidated financial statements

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

- **IFRS 15, ‘Revenue from contracts with customers’** - The standard replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.
- **Amendment to IFRS 15, ‘Revenue from contracts with customers’** - The amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendment to IAS 40, ‘Investment Property’** - The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of an investment property. The change must be supported by evidence. It was confirmed that a change in intention, in isolation, is not enough to support a transfer to or from the investment property.

Mashreqbank PSC Group

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

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

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

- **Amendment to IFRS 2, ‘Share-Based Payment’** - The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash – settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated if it was wholly owned equity – settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share based payment and pay that amount to the tax authority.
- **Amendments to IFRS 4, ‘Insurance contracts’** - The amendment address the concerns about the effective dates of IFRS 9, ‘Financial Instruments’ and the forthcoming new insurance contracts standard. The amendment introduces two approaches for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirement, and the ‘overlay approach’. Under overlay approach, an insurer is permitted to reclassify in respect of certain financial assets – from profit or loss to other comprehensive the difference between the amount that is reported in profit or loss account under IFRS 9 and the amount that would have been reported in profit or loss under IAS 39. The Group has elected to apply neither temporary exemption nor the overlay approach.
- **IFRIC 22, ‘Foreign currency transactions and advance consideration’** - The interpretation considers how to determine the date of transaction when applying the standard on applying the date of transactions, IAS 21. The date of transaction determines the exchange rate to be used on initial recognition to be used on an initial recognition of a related asset, expense or income. The interpretation provides guidance for when a single payment / receipt is made, as well as for situations where multiple payments / receipts are made.

Mashreqbank PSC Group

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

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

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

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

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

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

Mashreqbank PSC Group

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

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after

Amendment to IFRS 9, 'Financial instrument' - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss.	1 January 2019

There is no material impact on the consolidated financial statements of the Group from the adoption of above amendment on 1 January 2019.

IFRS 16, 'Leases' - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.	1 January 2019

For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

There is no material impact on the consolidated financial statements of the Group from the adoption of this new standard on 1 January 2019.

Mashreqbank PSC Group

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after

IFRIC 23 Uncertainty over Income Tax Treatments – The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers

1 January 2019

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities
- The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates
- The effect of changes in facts and circumstances

There is no material impact on the consolidated financial statements of the Group from the adoption of above interpretations on 1 January 2019.

Mashreqbank PSC Group

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after

IFRS 17, ‘Insurance contracts’ - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, ‘Insurance Contracts’. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	1 January 2022

The standard applies to annual periods beginning on or after 1 January 2022, with earlier application permitted if IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial instruments’ are also applied.

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

The Group is currently assessing the impact of the above new standard on the consolidated financial statements.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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”) as issued by International Accounting Standards Board (“IASB”) and applicable requirements of the laws of the United Arab Emirates (“UAE”).

3.2 Basis of preparation

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

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

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

3.3 Changes in accounting policies

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies

3.3 Changes in accounting policies (continued)

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation

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

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

Business combinations

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

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

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

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

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

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

3.5 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.4 above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition

(a) *Interest income and expense*

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

(b) *Income from Islamic financing and investments products*

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

(c) *Fee and commission income and expenses*

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

- (i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.
- (ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) *Dividend income*

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

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

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

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

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

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

(g) Rental income

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

3.7 Leasing

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies

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

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

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

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

3.9 Borrowing costs

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

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

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

3.10 Investment properties

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.10 Investment properties (continued)

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

3.11 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.11 Property and equipment (continued)

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

3.12 Impairment of tangible assets

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 statement of profit or loss. Immediately after initial recognition, an expected credit loss (“ECL”) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement.

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets

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

(i) *Classification of financial assets*

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

Debt instruments:

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

- Fair value through other comprehensive income (FVTOCI): financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) *Classification of financial assets (continued)*

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

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

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

Equity instruments:

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

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

Amortised cost and effective interest method

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) *Classification of financial assets (continued)*

Amortised cost and effective interest method (continued)

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

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

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

(ii) *Impairment of financial assets*

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

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

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

(iii) *Modification of loans*

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) *Modification of loans (continued)*

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

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

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

Derecognition other than on a modification

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition other than on a modification (continued)

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

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

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

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

3.14.2 Financial liabilities

Classification and subsequent measurement

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

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

Mashreqbank PSC Group

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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

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

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

3.18.5 Reinsurance contracts

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) *Unearned premium reserve*

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

(b) *Additional reserve*

The additional reserve comprises of the provisions made for:

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

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

(c) *Life assurance fund*

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

(d) *Unit-linked liabilities*

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

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

Deferred Policy Acquisition Costs (DAC)

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

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

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

3.18.8 Liability adequacy test

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Ijara

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Mudaraba

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

Wakala

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

(ii) Accounting policy

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

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

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

(iii) Revenue recognition policy

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy (continued)

Murabaha

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

Ijara

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

Mudaraba

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

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

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

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

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

3.22 Acceptances

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

3.23 Cash and cash equivalent

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

Mashreqbank PSC Group

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

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4.2 Fair value of financial instruments

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

4.3 Derivative financial instruments

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

Mashreqbank PSC Group

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

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

4.3 Derivative financial instruments (continued)

- (a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (b) An appropriate discount rate of the instrument. Management determines this rate by observing market pricing data. When valuing instruments by reference to comparable instruments, management takes into account the maturity and structure with which the position held is being compared.

4.4 Investment properties

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

4.5 The ultimate liability arising from claims made under insurance contracts

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

Mashreqbank PSC Group

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

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

4.6 Classification and measurement of financial assets

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

5 Cash and balances with central banks

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

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

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

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

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 2.23% (31 December 2017: 1.07%) per annum.

Mashreqbank PSC Group

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

6 Deposits and balances due from banks

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

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

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

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

(c) Allowance for impairment movement:

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

Mashreqbank PSC Group

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

7 Other financial assets

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

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

Mashreqbank PSC Group

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

7 Other financial assets (continued)

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

7 Other financial assets (continued)

- (g) Other financial assets measured at FVTPL include AED 200 million (31 December 2017: AED 189 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the quoted market price.
- (h) As of 31 December 2018, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.
- (i) During the year ended 31 December 2018, dividends received from other financial assets measured at FVTOCI amounting to AED 18 million (31 December 2017: AED 22 million) were recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (j) During the year ended 31 December 2018, change in fair value of other financial assets measured at FVTPL resulted in loss of AED 8 million (31 December 2017: a gain of AED 30 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (k) During the year ended 31 December 2018, change in fair value of other financial assets measured at FVTOCI resulted in loss of AED 73 million (31 December 2017: a gain of AED 47 million) and was recognised in the consolidated statement of comprehensive income.
- (l) During the year ended 31 December 2018, the Group purchased and disposed equity shares amounted to AED 1,201 million (31 December 2017: AED 585 million) and AED 1,198 million (31 December 2017: AED 754 million) respectively.

Mashreqbank PSC Group

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

8 Loans and advances measured at amortised cost

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

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

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

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

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

Mashreqbank PSC Group

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

8 Loans and advances measured at amortised cost (continued)

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

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

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

9 Islamic financing and investment products measured at amortised cost

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

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

Mashreqbank PSC Group

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

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

(c) Allowance for impairment movement:

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

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

Mashreqbank PSC Group

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

10 Other assets

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

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

11 Goodwill

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

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

12 Investment properties

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

Mashreqbank PSC Group

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

12 Investment properties (continued)

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

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

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

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

Mashreqbank PSC Group

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

13 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Capital work-in- progress* AED'000	Total AED'000
Cost					
At 1 January 2017	1,108,756	502,773	507,311	37,836	2,156,676
Additions during the year	112	43,258	87,089	202,155	332,614
Transfers	-	31,493	-	(31,493)	-
Disposals/write-offs	(262,968)	(84,617)	(106,779)	-	(454,364)
At 31 December 2017	845,900	492,907	487,621	208,498	2,034,926
Additions during the year	-	32,552	81,544	198,378	312,474
Transfers	-	2,009	8,586	(10,595)	-
Disposals/write-offs	(40)	(21,037)	(21,615)	(6,814)	(49,506)
At 31 December 2018	845,860	506,431	556,136	389,467	2,297,894
Accumulated depreciation and impairment					
At 1 January 2017	414,025	319,488	257,525	-	991,038
Charge for the year (Note 32)	18,416	58,604	73,580	-	150,600
Disposals/write-offs	(262,921)	(80,534)	(106,233)	-	(449,688)
At 31 December 2017	169,520	297,558	224,872	-	691,950
Charge for the year (Note 32)	18,415	47,473	88,725	-	154,613
Disposals/write-offs	(20)	(12,630)	(17,607)	-	(30,257)
At 31 December 2018	187,915	332,401	295,990	-	816,306
Carrying amount					
At 31 December 2018	657,945	174,030	260,146	389,467	1,481,588
At 31 December 2017	676,380	195,349	262,749	208,498	1,342,976

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

Mashreqbank PSC Group

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

14 Deposits and balances due to banks

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

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

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

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

15 Repurchase agreements with banks

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

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

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

Mashreqbank PSC Group

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

16 Customers' deposits

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

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

(b) Analysis by industry sector:

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

17 Islamic customers' deposits

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

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

(b) Analysis by industry sector:

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

Mashreqbank PSC Group

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

18 Other liabilities

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

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

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

Mashreqbank PSC Group

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

19 Medium-term loans

	2018 AED'000	2017 AED'000
Medium term notes	<u>8,185,390</u>	<u>6,226,032</u>

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

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

Medium term notes are denominated in following currencies:

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

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

During the year ended 31 December 2018, new medium-term notes of AED 7 billion were issued and AED 5 billion of medium-term notes were redeemed.

Mashreqbank PSC Group

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

20 Insurance and life assurance funds

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	Insurance related other fund AED'000	Total AED'000
At 1 January 2017	376,065	519,572	114,929	490,689	9,503	1,510,758
Increase / (decrease)	(4,817)	60,630	2,875	13,649	(400)	71,937
At 31 December 2017	371,248	580,202	117,804	504,338	9,103	1,582,695
Increase / (decrease)	10,464	(44,913)	294	(11,125)	(1,113)	(46,393)
At 31 December 2018	381,712	535,289	118,098	493,213	7,990	1,536,302

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

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

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

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

(b) Statutory and legal reserves

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

(c) General reserve

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

Mashreqbank PSC Group

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

21 Issued and paid up capital and reserves (continued)

(d) *Currency translation reserve*

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

(e) *Investments revaluation reserve*

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 73 million (31 December 2017: gain of AED 47 million) and was reflected in the consolidated statement of comprehensive income.

(f) *Cash flow hedging reserve*

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

(g) *Dividends on equity instruments*

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

Mashreqbank PSC Group

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

22 Non-controlling interests

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

23 Contingent liabilities and commitments

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

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

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

(c) Contingent liabilities and commitments – maturity profile

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

31 December 2018

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	11,502,092	1,730,240	4,422,142	13,188,978	12,603,056	43,446,508
Letters of credit	4,972,072	539,769	1,026,279	1,513,393	-	8,051,513
Total	<u>16,474,164</u>	<u>2,270,009</u>	<u>5,448,421</u>	<u>14,702,371</u>	<u>12,603,056</u>	<u>51,498,021</u>

Mashreqbank PSC Group

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

23 Contingent liabilities and commitments (continued)

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

31 December 2017

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	11,482,029	1,384,484	3,289,513	10,453,337	14,967,127	41,576,490
Letters of credit	3,982,788	566,130	200,765	635,029	-	5,384,712
Total	<u>15,464,817</u>	<u>1,950,614</u>	<u>3,490,278</u>	<u>11,088,366</u>	<u>14,967,127</u>	<u>46,961,202</u>

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

(d) Operating lease commitments

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

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

Mashreqbank PSC Group

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

24 Interest income

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

25 Income from Islamic financing and investment products

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

26 Interest expense

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

27 Distribution to depositors – Islamic products

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

Mashreqbank PSC Group

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

28 Net fee and commission income

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

29 Net investment income

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

Mashreqbank PSC Group

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

30 Other income, net

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

31 Allowances for impairment, net

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

32 General and administrative expenses

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

Mashreqbank PSC Group

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

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

34 Proposed dividends

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

35 Cash and cash equivalents

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

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

Mashreqbank PSC Group

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

36 Investment in subsidiaries

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

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

Mashreqbank PSC Group

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

36 Investment in subsidiaries (continued)

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

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

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

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

Mashreqbank PSC Group

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

36 Investment in subsidiaries (continued)

	2018 AED'000	2017 AED'000
Statement of financial position		
Total assets	6,717,228	7,404,690
Total liabilities	5,046,017	5,342,944
Net equity	1,671,211	2,061,746
Statement of comprehensive income		
Net insurance premium revenue	1,545,473	1,453,899
Net claims incurred	(1,102,812)	(1,018,700)
Insurance related income (Note 30)	442,661	435,199
Net commission and other (loss)/income	(64,122)	(10,476)
Net investment income	49,131	76,377
Net expenses	(417,452)	(396,616)
Profit for the year	10,218	104,484
Other comprehensive income	(8,472)	45,435
Total comprehensive income	1,746	149,919
Statement of cash flows		
Net cash generated from operating activities	433,460	39,020
Net cash (used in)/generated from investing activities	(195,443)	77,633
Net cash flows used in financing activities	(212,937)	(172,992)
Net increase/(decrease) in cash and cash equivalents	25,080	(56,339)

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 88.08% (31 December 2017: 87.99%) of the issued and paid up capital of the bank.
- (c) Related party balances included in the consolidated statement of financial position are as follows:

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

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

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

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

Mashreqbank PSC Group

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

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

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

(b) Industry Sectors

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

Mashreqbank PSC Group

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

- (i) The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the UAE. Trade finance, contracting finance, project finance, investment banking, corporate advisory and cash management are the major products and / or business lines making up this segment.
- (ii) The **Domestic Retail** segment includes products and services offered to individuals or small businesses within the UAE. The product offerings to customers include current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, Private banking and wealth management services.
- (iii) The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.
- (iv) The **International Banking** segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection and risk participations.
- (v) All Islamic banking products offered to customers are included under the **Islamic Banking** segment. These products are Ijara Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijara Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.
- (vi) The Insurance subsidiary, Oman Insurance Company (PSC) – comprises the **Insurance** segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

- (vii) The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2018						Total AED'000
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	
Net interest income and earnings from Islamic products	948,650	989,103	214,158	661,030	414,748	59,078	3,643,062
Other income, net	410,769	557,056	388,207	508,082	120,438	307,341	2,295,226
Total operating income	1,359,419	1,546,159	602,365	1,169,112	535,186	366,419	5,938,288
General and administrative expenses							(2,618,210)
Allowances for impairment							(1,230,255)
Profit before taxes							2,089,823
Tax expense							(24,605)
Profit for the year							2,065,218
Attributed to:							
Owners of the Parent							2,060,200
Non-controlling interests							5,018
							2,065,218
Segment Assets	34,314,803	13,102,408	19,705,166	35,721,037	13,955,371	4,110,739	139,931,607
Segment Liabilities	37,229,466	21,959,231	12,726,519	21,936,174	11,258,447	2,452,615	119,165,918

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2017					
	Domestic corporate	Domestic retail	Treasury & capital markets	International banking	Islamic banking	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	877,143	1,013,250	84,796	755,861	345,152	3,578,937
Other income, net	483,763	517,012	531,633	485,451	133,957	2,436,719
Total operating income	1,360,906	1,530,262	616,429	1,241,312	479,109	6,015,656
General and administrative expenses						(2,360,756)
Allowances for impairment						(1,487,682)
Profit before taxes						2,167,218
Tax expense						(77,688)
Profit for the year						2,089,530
Attributed to:						
Owners of the Parent						2,052,320
Non-controlling interests						37,210
						2,089,530
Segment Assets	32,797,764	13,487,094	17,584,540	31,141,254	10,342,771	125,188,236
Segment Liabilities	32,527,369	25,491,243	9,253,428	19,433,187	7,412,273	104,061,816

Mashreqbank PSC Group

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

39 Segmental information (continued)

Geographical information

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

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

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

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

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

Revenue from major products and services

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

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2018 and 2017.

Mashreqbank PSC Group

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 2017:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	16,899,076	16,899,076
Deposits and balances due from banks	-	-	20,135,427	20,135,427
Other financial assets measured at fair value	954,204	626,341	-	1,580,545
Other financial assets measured at amortised cost	-	-	12,583,404	12,583,404
Loans and advances measured at amortised cost	-	-	53,394,165	53,394,165
Islamic financing and investment products measured at amortised cost	-	-	9,339,467	9,339,467
Acceptance	-	-	6,379,818	6,379,818
Other assets	492,580	-	2,303,048	2,795,628
Total	<u>1,446,784</u>	<u>626,341</u>	<u>121,034,405</u>	<u>123,107,530</u>

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	9,313,430	9,313,430
Repurchase agreements with banks	-	-	557,183	557,183
Customers' deposits	-	-	69,380,208	69,380,208
Islamic customers' deposits	-	-	6,680,874	6,680,874
Acceptance	-	-	6,379,818	6,379,818
Other liabilities	440,829	-	2,285,851	2,726,680
Medium-term loans	-	-	6,226,032	6,226,032
Total	<u>440,829</u>	<u>-</u>	<u>100,823,396</u>	<u>101,264,225</u>

Mashreqbank PSC Group

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

41 Derivatives (continued)

31 December 2018

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

Mashreqbank PSC Group

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

41 Derivatives (continued)

31 December 2017

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

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

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

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

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

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

As per the Central bank regulation for Basel III, the capital requirement as at 31st December 2018 is 12.375% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.

The bank must comply with the following minimum requirement:

- (i) CET1 must be at least 7% of risk weighted assets (RWA);
- (ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
- (iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
- (iv) Additionally, banks are required to maintain capital conservation buffer of 1.875% in 2018.

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

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

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

Mashreqbank PSC Group

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

43 Risk management

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

The Group has exposure to the following primary risks:

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

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

Risk Management Framework

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 Group Chief Risk Officer, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

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

Capital Management

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

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

Mashreqbank PSC Group

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

43 Risk management

Risk Appetite & Stress Testing

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Credit risk management

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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

Credit risk grading

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Expected credit loss measurement

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

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

Significant increase in credit risk (SICR)

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

Quantitative criteria

Corporate loans:

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

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

Retail:

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Expected credit loss measurement (continued)

Treasury

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

Qualitative criteria:

Corporate Loans

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

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

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

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

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

Backstop:

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria:

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

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

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Forward looking information incorporated in the ECL models

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

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

Sensitivity analysis

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

Collateral and other credit enhancements

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Loss allowance

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Write-off policy

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Modification of financial assets

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

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

Geographical concentration

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

	UAE AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Others AED'000	Total AED'000
31 December 2018					
Stage 3	1,392,264	841,027	168	374,011	2,607,470
Impairment allowance for credit losses inclusive of interest in suspense	<u>(733,590)</u>	<u>(806,450)</u>	<u>(168)</u>	<u>(48,513)</u>	<u>(1,588,721)</u>
	<u>658,674</u>	<u>34,577</u>	<u>-</u>	<u>325,498</u>	<u>1,018,749</u>
31 December 2017					
Impaired loans and advances	1,112,013	832,747	180	-	1,944,940
Impairment allowance for credit losses inclusive of interest in suspense	<u>(722,340)</u>	<u>(546,167)</u>	<u>(226)</u>	<u>-</u>	<u>(1,268,733)</u>
	<u>389,673</u>	<u>286,580</u>	<u>(46)</u>	<u>-</u>	<u>676,207</u>

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Geographical concentration

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

	UAE. AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Others AED'000	Total AED'000
31 December 2018					
Stage 3	175,631	-	-	-	175,631
Impairment allowance for credit losses inclusive of profit in suspense	(68,528)	-	-	-	(68,528)
	<u>107,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,103</u>
31 December 2017					
Impaired Islamic financing and investment products	156,805	-	-	124,617	281,422
Impairment allowance for credit losses inclusive of profit in suspense	(89,937)	-	-	(2,490)	(92,427)
	<u>66,868</u>	<u>-</u>	<u>-</u>	<u>122,127</u>	<u>188,995</u>

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.

Mashreqbank PSC Group

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

43 Risk management (continued)

Governance

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

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

Operational risk management follows three lines of defence model;

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

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

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

Risk identification, monitoring and reporting

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

Risk and control self-assessment (RCSA)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Incident management

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

Market risk management

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

Market Risk at Mashreq Bank is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is completely independent of any risk taking business. The Market Risk function folds under Risk Management and reports to the Chief Risk Officer of the Group.

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Market risk management (continued)

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial assets and liabilities to different extents. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities repricing at different times.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee (“ALCO”). Since majority of the Group’s assets and liabilities are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group’s assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2018 would have been an decrease in profit by -3.01% (in case of decrease of interest rates) and would have been an increase in profit by +3.04% (in case of increase of interest rates) [31 December 2017: -4.29%and +4.41%] respectively.

During the year ended 31 December 2018, the effective interest rate on due from banks and certificates of deposits with central banks was 2.13% (31 December 2017: 1.67%), on loans and advances measured at amortised cost 5.80% (31 December 2017: 5.50%), on customers’ deposits 1.73% (31 December 2017: 1.12%) and on due to banks (including repurchase agreements) 2.19% (31 December 2017: 1.27%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2018							
Assets							
Cash and balances with central banks	9,507,378	-	-	-	-	10,640,448	20,147,826
Deposits and balances due from banks	13,333,474	5,175,117	1,022,504	477,817	-	3,000,256	23,009,168
Other financial assets measured at fair value	65,315	109,526	54,165	78,544	250,602	1,179,607	1,737,759
Other financial assets measured at amortised cost	1,852,407	571,952	1,251,847	5,179,061	2,825,967	-	11,681,234
Loans and advances measured at amortised cost	43,823,855	2,471,671	1,705,713	3,660,845	3,708,503	982,753	56,353,340
Islamic financing and investment products measured at amortised cost	11,412,427	133,400	156,306	621,486	297,469	295,167	12,916,255
Other assets	-	-	-	-	-	2,332,423	2,332,423
Acceptances	-	-	-	-	-	9,782,129	9,782,129
Investment properties	-	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	-	1,481,588	1,481,588
Total assets	79,994,856	8,461,666	4,190,535	10,017,753	7,082,541	30,184,256	139,931,607

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2018

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	4,279,247	1,314,878	304,640	-	2,339	3,158,859	9,059,963
Repurchase agreements with banks	2,116,677	-	-	-	-	-	2,116,677
Customers' deposits	23,755,184	8,069,530	8,297,753	2,941,464	531,756	28,926,169	72,521,856
Islamic customers' deposits	2,907,440	520,324	1,490,878	1,411,289	16,700	4,350,076	10,696,707
Other liabilities	-	-	-	-	-	5,266,894	5,266,894
Acceptances	-	-	-	-	-	9,782,129	9,782,129
Medium-term loans	1,668,604	2,763,013	1,666,941	1,900,233	-	186,599	8,185,390
Insurance and life assurance funds	-	-	-	-	-	1,536,302	1,536,302
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,144,104	20,144,104
Non-controlling interest	-	-	-	-	-	621,585	621,585
Total liabilities and equity	34,727,152	12,667,745	11,760,212	6,252,986	550,795	73,972,717	139,931,607
On balance sheet gap	45,267,704	(4,206,079)	(7,569,677)	3,764,767	6,531,746	(43,788,461)	-
Off balance sheet gap	2,698,369	(2,691,147)	(85,342)	71,162	6,958	-	-
Cumulative interest rate sensitivity gap	47,966,073	41,068,847	33,413,828	37,249,757	43,788,461	-	-

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2017							
Assets							
Cash and balances with central banks	5,979,811	-	850,000	-	-	10,069,265	16,899,076
Deposits and balances due from banks	9,786,145	4,851,010	1,043,990	496,482	-	3,957,800	20,135,427
Financial assets measured at fair value	250,076	174,063	13,588	-	-	1,142,818	1,580,545
Financial assets measured at amortised cost	5,972,970	4,655,430	348,691	761,945	844,368	-	12,583,404
Loans and advances measured at amortised cost	40,558,579	3,255,652	1,450,636	3,455,635	4,229,201	444,462	53,394,165
Islamic financing and investment products measured at amortised cost	6,925,275	459,234	165,255	688,016	902,471	199,216	9,339,467
Other assets	-	-	-	-	-	3,015,667	3,015,667
Acceptances	-	-	-	-	-	6,379,818	6,379,818
Investment properties	-	-	-	-	-	517,691	517,691
Property and equipment	-	-	-	-	-	1,342,976	1,342,976
Total assets	69,472,856	13,395,389	3,872,160	5,402,078	5,976,040	27,069,713	125,188,236

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2017	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	6,586,279	771,201	422,950	-	-	1,533,000	9,313,430
Repurchase agreements with banks	557,183	-	-	-	-	-	557,183
Customers' deposits	19,070,225	7,010,104	4,643,802	2,627,821	553,378	35,474,878	69,380,208
Islamic customers' deposits	1,643,086	348,133	1,376,085	262,868	16,700	3,034,002	6,680,874
Other liabilities	-	-	-	-	-	3,941,576	3,941,576
Acceptances	-	-	-	-	-	6,379,818	6,379,818
Medium-term loans	2,736,004	1,473,315	618,267	1,208,066	-	190,380	6,226,032
Insurance and life assurance funds	-	-	-	-	-	1,582,695	1,582,695
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,363,446	20,363,446
Non-controlling interest	-	-	-	-	-	762,974	762,974
Total liabilities and equity	30,592,777	9,602,753	7,061,104	4,098,755	570,078	73,262,769	125,188,236
On balance Sheet gap	38,880,079	3,792,636	(3,188,944)	1,303,323	5,405,962	(46,193,056)	-
Off balance Sheet gap	(35)	-	-	-	35	-	-
Cumulative interest rate sensitivity gap	38,880,044	42,672,680	39,483,736	40,787,059	46,193,056	-	-

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored. The Group's exposures on 31 December are as follows:

	31 December 2018			31 December 2017		
	Net spot position	Net Forward position	Net Position	Net spot position	Net Forward position	Net Position
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
U.S. Dollars	9,228,977	(7,694,809)	1,534,168	9,862,269	(5,852,816)	4,009,453
Qatari Riyals	1,371,169	230,090	1,601,259	1,999,936	110,505	2,110,441
Pound Sterling	(484,676)	516,253	31,577	(692,701)	723,001	30,300
Euro	(1,965,996)	1,717,182	(248,814)	(2,470,578)	1,773,735	(696,843)
Bahrain Dinar	1,522	(3,223)	(1,701)	72,490	(10,609)	61,881
Saudi Riyal	(3,565,828)	3,568,814	2,986	(1,464,959)	1,460,716	(4,243)
Japanese Yen	(806,483)	822,812	16,329	(694,888)	704,456	9,568
Swiss Francs	(183,715)	186,616	2,901	(207,102)	207,511	409
Kuwaiti Dinar	221,211	(156,394)	64,817	209,277	(161,225)	48,052
Chinese Yuan	(324,377)	324,544	167	(259,001)	260,289	1,288
Other	640,173	75,968	716,141	486,075	(7,603)	478,472
Total	4,131,977	(412,147)	3,719,830	6,840,818	(792,040)	6,048,778

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

In compliance with Basel Committee on Banking Supervision ("BCBS") document titled "Principles for Sound Liquidity Management" and CBUAE "Regulations re Liquidity at Banks" (Circular Number 33/2015) and accompanying Guidance Manual, Mashreqbank has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets ("HQLA") to be in a position to survive such periods of liquidity stress. The Bank's Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits
2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations

The Treasury function in the Group is then responsible for implementing the ALCO policies. In this regard, the following policies, procedures and systems have been implemented:

a) Robust ALCO oversight through timely, pertinent information and analysis

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, the Head of Risk Management, the Head of International Banking and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Head of Risk Management, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

b) Maintenance of Adequate HQLA ("High Quality Liquid Assets") cushion

The Bank holds a portfolio of HQLA aligned with the established risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by stress tests.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

c) Gap limits on the Bank's Money market assets

The minimum size of net placements in highly liquid money market instruments is decided by ALCO based on factors including size of the balance sheet, asset growth plans and liquidity outlook.

The Money Book deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet a range of liquidity needs, including longer term structural, short term and intraday.

d) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places significant emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2018 has an outstanding balance of AED 8.18 billion (31 December 2017: AED 6.23 billion) [Note 19] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014 and Hong Kong Branch in 2018.

e) Stress Testing for a variety of short-term and protracted institution-specific and market-wide stress scenarios

Stress tests enable the bank to analyze the impact of stress scenarios on its consolidated group-wide liquidity position as well as on the liquidity position of its overseas operations and business lines. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the bank is exposed. ALCO reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

f) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO on an annual basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

g) FTP Frame work for allocating liquidity costs, benefits and risks to all business activities

Mashreq has a well-developed FTP policy and system that aims to create transparency in profitability and insulate BUs from market risk.

h) Regular Internal as well as CBUAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreq liquidity policies, procedures and systems are subject to end to end review both internally by the internal audit as well as by the CBUAE.

The Central bank of UAE through its circular no. 33/2015 dated 27 May 2015 announced new Regulations regarding Liquidity at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio (“ELAR”) applicable from 1 July 2015 as well as the intention to start the transition to the Basel III Liquidity standards from 1 January 2016. To monitor and manage liquidity risk, the Group uses various indicators including the regulatory ratios of Advances to Stable Resources (“ASRR”) and the recently implemented ELAR. Other indicators include loans and advances to customers’ deposits, liquid assets to total assets, deposit concentration risk indicators, and limits for liquidity gaps. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2018 were as follows:

Assets	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
Cash and balances with central banks	20,147,826	-	-	-	-	20,147,826
Deposits and balances due from banks	14,912,292	5,239,501	2,059,706	797,669	-	23,009,168
Other financial assets measured at fair value	367,643	116,785	102,002	95,185	1,056,144	1,737,759
Other financial assets measured at amortised cost	2,026,547	386,165	1,251,844	5,263,867	2,752,811	11,681,234
Loans and advances measured at amortised cost	17,585,237	4,315,906	3,594,079	16,364,654	14,493,464	56,353,340
Islamic financing and investment products measured at amortised cost	5,543,099	929,349	230,414	2,929,115	3,284,278	12,916,255
Other assets	1,373,658	326,714	167,675	401,410	62,966	2,332,423
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Investment properties	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	1,481,588	1,481,588
Total assets	64,309,679	14,907,088	11,241,111	25,852,593	23,621,136	139,931,607

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	6,839,041	1,425,068	304,640	488,875	2,339	9,059,963
Repurchase agreements with banks	2,116,677	-	-	-	-	2,116,677
Customers' deposits	52,818,602	8,050,106	8,308,524	2,812,868	531,756	72,521,856
Islamic customers' deposits	7,204,078	520,324	1,544,316	1,411,289	16,700	10,696,707
Other liabilities	3,848,388	525,063	498,398	340,226	54,819	5,266,894
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Medium-term loans	1,668,604	2,763,013	1,853,540	1,900,233	-	8,185,390
Insurance and life assurance funds	-	-	1,043,087	493,215	-	1,536,302
Equity attributable to shareholders of the Parent	-	-	-	-	20,144,104	20,144,104
Non-controlling interest	-	-	-	-	621,585	621,585
Total liabilities and equity	76,848,767	16,876,242	17,387,896	7,447,399	21,371,303	139,931,607

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2017 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	16,049,076	-	850,000	-	-	16,899,076
Deposits and balances due from banks	13,046,225	4,584,394	1,755,111	749,697	-	20,135,427
Financial assets measured at fair value	933,436	104,373	1,204	107,836	433,696	1,580,545
Financial assets measured at amortised cost	1,865,093	742,134	593,922	4,905,471	4,476,784	12,583,404
Loans and advances measured at amortised cost						
Cost	14,701,615	4,258,583	4,929,216	14,574,410	14,930,341	53,394,165
Islamic financing and investment products measured at amortised cost	4,368,997	495,211	301,278	2,260,772	1,913,209	9,339,467
Other assets	1,914,535	869,328	86,485	111,735	33,584	3,015,667
Acceptances	2,381,259	2,053,413	1,945,146	-	-	6,379,818
Investment properties	-	-	-	-	517,691	517,691
Property and equipment	-	-	-	-	1,342,976	1,342,976
Total assets	55,260,236	13,107,436	10,462,362	22,709,921	23,648,281	125,188,236

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	8,119,279	771,201	422,950	-	-	9,313,430
Repurchase agreements with banks	557,183	-	-	-	-	557,183
Customers' deposits	54,490,765	7,004,193	4,652,383	2,679,489	553,378	69,380,208
Islamic customers' deposits	4,676,969	348,132	1,376,205	262,868	16,700	6,680,874
Other liabilities	2,828,434	304,448	315,976	249,886	242,832	3,941,576
Acceptances	2,381,259	2,053,413	1,945,146	-	-	6,379,818
Medium-term loans	2,736,004	1,473,315	808,647	1,208,066	-	6,226,032
Insurance and life assurance funds	-	-	1,078,357	504,338	-	1,582,695
Equity attributable to shareholders of the Parent	-	-	-	-	20,363,446	20,363,446
Non-controlling interest	-	-	-	-	762,974	762,974
Total liabilities and equity	75,789,893	11,954,702	10,599,664	4,904,647	21,939,330	125,188,236

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 10% in claims will result in corresponding increase/ decrease in net claims incurred by AED 110 million (2017: AED 102 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 2017.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2018 AED'000	2017 AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	20,724	119,098	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	10,752	3,548	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	207,194	258,793	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Unquoted debt investments	55,095	59,836	Level 3	Based on discounted cash flow model	Interest rate	Change in interest rate will impact the value of the bond.
Mutual and other funds	597,921	523,527	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	220	222	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	891,906	965,024				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2018 AED'000	2017 AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	356,824	355,635	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted debt investments	296,160	-	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	192,869	259,886	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	845,853	615,521				
	1,737,759	1,580,545				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 financial assets measured at FVTPL

	2018 AED'000	2017 AED'000
At 1 January	60,058	23,261
Purchases	-	129,617
Disposals/matured	-	(134,038)
Change in fair value	(4,743)	41,218
At 31 December	55,315	60,058

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2018 AED'000	2017 AED'000
At 1 January	259,886	348,294
Purchases	-	-
Disposals/matured	(7,569)	(153,675)
Change in fair value	(59,448)	65,267
At 31 December	192,869	259,886

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (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 as these are substantially short term in nature and carry market rates of interest.

	Carrying amount AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2018					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>11,681,234</u>	<u>7,436,644</u>	<u>2,486,579</u>	<u>1,581,627</u>	<u>11,504,850</u>
31 December 2017					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>12,583,404</u>	<u>9,126,707</u>	<u>1,432,660</u>	<u>2,020,566</u>	<u>12,579,933</u>
	Carrying Amount AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2018					
<i>Financial liabilities</i>					
Medium-term notes	<u>8,185,390</u>	<u>6,960,601</u>	<u>-</u>	<u>1,226,329</u>	<u>8,186,930</u>
31 December 2017					
<i>Financial liabilities</i>					
Medium-term notes	<u>6,226,032</u>	<u>4,904,034</u>	<u>-</u>	<u>1,314,700</u>	<u>6,218,734</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2018 and 31 December 2017:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2018				
Other financial assets measured at fair value	<u>8,919</u>	<u>(8,919)</u>	<u>8,459</u>	<u>(8,459)</u>
31 December 2017				
Other financial assets measured at fair value	<u>9,650</u>	<u>(9,650)</u>	<u>6,155</u>	<u>(6,155)</u>

Majority of the derivatives financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 113 million as at 31 December 2018 (31 December 2017: AED 113 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2018.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 were approved by the Board of Directors and authorised for issue on 21 January 2019.

WE MAKE POSSIBLE

MASHREQBANK PSC GROUP

**Report and consolidated financial statements
for the year ended 31 December 2017**

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E and adoption by shareholders at the annual general meeting.

MASHREQBANK PSC GROUP

Report and consolidated financial statements for the year ended 31 December 2017

Contents	Pages
Independent auditor's report	1 - 8
Consolidated statement of financial position	9
Consolidated statement of profit or loss	10
Consolidated statement of comprehensive income	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13 - 14
Notes to the consolidated financial statements	15 - 116

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Mashreqbank psc (the "Bank") and its subsidiaries (together the "Group")**, **Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank psc and its subsidiaries, as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matters
<i>Impairment of loans and advances and Islamic financing</i> The management exercises significant judgment when determining both when and how much to record as loan impairment provisions. Because of the significance of these judgements and the size of loans and advances and Islamic financing, the audit of allowance for related impairment provisions is a key area of focus. At 31 December 2017, the total of gross loans and advances and Islamic finance was AED 66 billion (31 December 2016: AED 64 billion) against which allowance for impairment provisions of AED 3.2 billion were recorded (31 December 2016: AED 3.3 billion). Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. The accounting policies and critical judgments relative to the calculations of the impairment provisions on loans and advances and Islamic financing are summarised in Note 3.14 and Note 4.1 to the consolidated financial statements respectively. The Group uses two methods in its calculations of impairment provisions on loans and advances and Islamic financing:	
	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances. We tested the design, implementation and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the impairment calculation models including data inputs; • Controls over collateral valuation estimates; and • Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management. We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of loans and advances and Islamic financing (continued)</i>	
<u><i>Individually assessed facilities</i></u> These represent mainly corporate facilities which are assessed individually by the Group's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired. Impaired facilities are measured based on the present value of expected future cash flows discounted at the original effective interest rate or at the observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent. Impairment loss is calculated as the difference between the facilities carrying value and its present value or recoverable amount calculated as above.	<u><i>Individually assessed facilities</i></u> We tested a sample of individual facilities (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether adequate impairments provisions had been recorded in a timely manner. Where impairment had been identified, we tested the estimation of the future expected cash flows prepared by management to support the calculation of impairment, challenging the assumptions, including realisation of collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral. We examined a sample of facilities which had not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate to support management's conclusion.
<u><i>Collectively assessed facilities</i></u> The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of performing retail and wholesale facilities which may be impaired but not identified as of the reporting date. Allowances against performing loans and advances are reassessed on a periodical basis using modelled basis for different portfolios with common features and allowances are adjusted accordingly based on the judgment of management and guidance received from the Central Bank of the UAE.	<u><i>Collectively assessed facilities</i></u> For the collective impairment models used by the Group, we tested a sample of the data used in the models as well as evaluating the model methodology and re-performing the calculations. For the key assumptions used in the model, we challenged management to provide objective evidence that they were appropriate and included all relevant risks. Further, we considered our industry experience and knowledge to consider the appropriateness of the provision. We recalculated the collective impairment provision as per the Bank's policies and IFRS and compared it with the calculations as per UAE Central Bank to ensure adequacy of the provision. We performed certain test procedures to ensure past due payments are reflected in the right bucket. We have also involved our IT auditors to provide us assurance on the accuracy of the ageing reports generated by the system and its related configuration.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matters
<i>Valuation of Insurance contract liabilities</i> As at 31 December 2017, net insurance contract liabilities amounted to AED 1.6 billion (31 December 2016: AED 1.5 billion), as detailed in note 18 to these consolidated financial statements. As set out in note 3.18 and note 4.6, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management. This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves. A range of methods are used by management and the internal actuary/independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Furthermore, valuation of life insurance contract liabilities involves complex and subjective judgement made by management and the internal actuary/independent external actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities. The valuation of these liabilities also depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. As a result of all of the above factors, insurance contract liabilities represent a significant risk for the Group.	
	Our audit procedures included: • Testing the underlying Group data to source documentation. • Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group. • Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process. • Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters. • Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations. In addition, with the assistance of our actuarial specialists, we: • performed necessary reviews to ascertain whether the results are appropriate for financial disclosure. • reviewed the actuarial report compiled by the independent external actuaries of the Group and calculations underlying these provisions, particularly the following areas; • appropriateness of the calculation methods and approach (actuarial best practice) • review of assumptions • sensitivities to key assumptions • risk profiles • consistency between valuation periods • general application of financial and mathematical rules

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>IT systems and controls over financial reporting</i> We identified IT systems and controls over financial reporting as an area of focus because the Group's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The incorporated key controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We also tested the accuracy and completeness of key computer generated reports heavily used in our testing such as aging report of overdue loans and advances. In events deficiencies are noted during our testing affecting applications and databases, we performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. In addition and where appropriate, we extended the scope of our substantive audit procedures.

INDEPENDENT AUDITOR'S REPORT (continued)**Other information**

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with applicable provisions of UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Groups' Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) We have obtained all the information we considered necessary for the purposes of our audit;
- ii) The consolidated financial statements of the Group have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) The Group has maintained proper books of account;
- iv) The financial information included in the Directors' report is consistent with the books of account of the Group;
- v) As disclosed in Note 7 (m) to the consolidated financial statements, the Group has purchased or invested in shares during the year ended 31 December 2017;
- vi) Note 37 to the consolidated financial statements of the Group discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
- viii) Note 31 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2017.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.



Musa Ramahi
Registration No. 872

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Building 3, Level 6, Emaar Square, Downtown Dubai
P.O.Box 4254, Dubai, United Arab Emirates

28 January 2018

**Consolidated statement of financial position
at 31 December 2017**

		31 December 2017		31 December 2016	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	16,899,076	4,600,892	18,629,582	5,072,034
Deposits and balances due from banks	6	20,135,427	5,482,011	18,667,750	5,082,426
Other financial assets measured at fair value	7	1,580,545	430,314	2,419,199	658,644
Loans and advances measured at amortised cost	8	53,394,165	14,536,936	53,428,461	14,546,273
Islamic financing and investment products measured at amortised cost	9	9,339,467	2,542,735	7,565,063	2,059,641
Other financial assets measured at amortised cost	7	12,583,404	3,425,920	10,849,298	2,953,797
Other assets	10	9,381,071	2,554,062	9,552,316	2,600,685
Goodwill	11	14,414	3,925	15,365	4,183
Investment properties	12	517,691	140,945	520,864	141,809
Property and equipment	13	1,342,976	365,635	1,165,638	317,353
Total assets		125,188,236	34,083,375	122,813,536	33,436,845
LIABILITIES AND EQUITY					
Liabilities					
Deposits and balances due to banks	14	9,313,430	2,535,647	8,932,076	2,431,820
Repurchase agreements with banks	15	557,183	151,697	605,600	164,879
Customers' deposits	16	69,380,208	18,889,248	69,947,124	19,043,595
Islamic customers' deposits	17	6,680,874	1,818,915	7,093,383	1,931,223
Insurance and life assurance funds	18	1,582,695	430,900	1,510,758	411,314
Other liabilities	19	10,321,394	2,810,072	10,267,090	2,795,287
Medium-term loans	20	6,226,032	1,695,081	4,971,860	1,353,624
Total liabilities		104,061,816	28,331,560	103,327,891	28,131,742
Equity					
Capital and reserves					
Issued and paid up capital	21(a)	1,775,308	483,340	1,775,308	483,340
Statutory and legal reserves	21(b)	901,621	245,473	899,351	244,855
General reserve	21(c)	312,000	84,944	312,000	84,944
Cumulative translation adjustment	21(d)	(59,163)	(16,108)	(298,562)	(81,286)
Investments revaluation reserve	21(e)	(184,989)	(50,365)	(248,283)	(67,597)
Cash flow hedging reserve	21(f)	-	-	7,624	2,076
Retained earnings		17,618,669	4,796,806	16,310,198	4,440,566
Equity attributable to owners of the Parent		20,363,446	5,544,090	18,757,636	5,106,898
Non-controlling interests	22	762,974	207,725	728,009	198,205
Total equity		21,126,420	5,751,815	19,485,645	5,305,103
Total liabilities and equity		125,188,236	34,083,375	122,813,536	33,436,845

The accompanying notes form an integral part of these consolidated financial statements.


Abdulla Bin Ahmad Al Ghurair
Chairman


Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

**Consolidated statement of profit or loss
for the year ended 31 December 2017**

	Notes	Year ended 31 December 2017		Year ended 31 December 2016	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	4,684,098	1,275,279	4,466,079	1,215,921
Income from Islamic financing and investment products	25	406,676	110,720	347,555	94,624
Total interest income and income from Islamic financing and investment products		5,090,774	1,385,999	4,813,634	1,310,545
Interest expense	26	(1,440,450)	(392,173)	(1,345,530)	(366,330)
Distribution to depositors – Islamic products	27	(151,901)	(41,356)	(105,737)	(28,788)
Net interest income and income from Islamic products net of distribution to depositors		3,498,423	952,470	3,362,367	915,427
Fee and commission income	28	2,988,476	813,634	3,049,142	830,150
Fee and commission expenses	28	(1,430,877)	(389,566)	(1,364,469)	(371,486)
Net fee and commission income		1,557,599	424,068	1,684,673	458,664
Net investment income	29	187,368	51,012	262,517	71,472
Other income, net	30	772,266	210,255	859,068	233,887
Operating income		6,015,656	1,637,805	6,168,625	1,679,450
General and administrative expenses	31	(2,360,756)	(642,732)	(2,406,701)	(655,241)
Allowances for impairment, net	32	(1,487,682)	(405,032)	(1,733,659)	(472,001)
Profit before taxes		2,167,218	590,041	2,028,265	552,208
Overseas income tax expense		(77,688)	(21,152)	(74,354)	(20,243)
Profit for the year		2,089,530	568,889	1,953,911	531,965
Attributable to:					
Owners of the Parent		2,052,320	558,759	1,926,412	524,479
Non-controlling interests		37,210	10,130	27,499	7,486
		2,089,530	568,889	1,953,911	531,965
Earnings per share	33	AED 11.56	USD 3.15	AED 10.85	USD 2.95

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of comprehensive income
for the year ended 31 December 2017**

	Year ended 31 December 2017		Year ended 31 December 2016	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	2,089,530	568,889	1,953,911	531,965
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net [Note 7(l)]	47,133	12,832	12,330	3,357
<i>Items that will be reclassified subsequently to profit or loss:</i>				
Cumulative translation adjustment	240,636	65,515	(236,665)	(64,434)
Loss on hedging instruments designated in hedges of the net assets of foreign operations	(1,237)	(337)	(1,287)	(350)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	(7,624)	(2,076)	(1,597)	(435)
Total other comprehensive gain/(loss) for the year	278,908	75,934	(227,219)	(61,862)
Total comprehensive income for the year	2,368,438	644,823	1,726,692	470,103
Attributable to:				
Owners of the Parent	2,315,933	630,529	1,699,146	462,604
Non-controlling interests	52,505	14,294	27,546	7,499
	2,368,438	644,823	1,726,692	470,103

The accompanying notes form an integral part of these consolidated financial statements.

MASHREQBANK PSC GROUP

Consolidated statement of changes in equity for the year ended 31 December 2017

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Cash flow hedging reserve AED'000	Retained earnings AED'000
Balance at 1 January 2016	1,775,308	896,595	312,000	(60,610)	(276,416)	9,221	15,119
Profit for the year	-	-	-	-	-	-	1,919
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)	1,919
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	15,850	-	-
Transfer to statutory and legal reserves	-	2,756	-	-	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(1,919)
Balance at 31 December 2016	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,927
Profit for the year ended 31 December 2017	-	-	-	-	-	-	2,119
Other comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	-
Total comprehensive income/(loss) for the year	-	-	-	239,399	31,838	(7,624)	2,119
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	31,456	-	-
Transfer to statutory and legal reserves	-	2,270	-	-	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(2,119)
Balance at 31 December 2017	1,775,308	901,621	312,000	(59,163)	(184,989)	-	17,135

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended 31 December 2017**

	Notes	Year ended 31 December 2017		Year ended 31 December 2016	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		2,167,218	590,041	2,028,265	552,208
Adjustments for:					
Depreciation of property and equipment	13	150,600	41,002	155,611	42,366
Allowances for impairment, net	32	1,487,682	405,032	1,733,659	472,001
Loss/(gain) on disposal of property and equipment	30	1,566	426	(53,837)	(14,658)
Reversal of impairment on property and equipment	13	-	-	(35,171)	(9,576)
Loss from disposal of investment properties	30	300	82	250	69
Fair value adjustments of other financial assets measured at FVTPL	29	(30,380)	(8,271)	(6,310)	(1,718)
Fair value adjustments of investment properties	30	773	210	2,161	588
Net realised gain from sale of other financial assets measured at FVTPL	29	(44,744)	(12,182)	(24,029)	(6,542)
Dividend income from financial assets measured at FVTOCI	29	(22,476)	(6,119)	(26,878)	(7,318)
Net realised (gain)/loss from sale of other financial assets measured at amortised cost	29	(8,636)	(2,351)	490	133
Fair value adjustment – derivatives	30	(64)	(17)	(6,954)	(1,893)
Operating cash flows before changes in operating assets and liabilities		3,701,839	1,007,853	3,767,257	1,025,660
Decrease/(increase) in deposits with central banks		2,015,817	548,820	(430,654)	(117,249)
Increase in deposits and balances due from banks maturing after three months		(915,762)	(249,323)	(1,997,519)	(543,839)
Increase in loans and advances measured at amortised cost		(1,319,000)	(359,107)	(1,512,319)	(411,739)
Increase in Islamic financing and investment products measured at amortised cost		(1,867,335)	(508,395)	(1,011,571)	(275,407)
Decrease/(increase) in other assets		135,979	37,021	(2,651,224)	(721,814)
Decrease in other financial assets carried at FVTPL		771,440	210,030	210,633	57,347
Decrease in repurchase agreements with banks		(48,417)	(13,182)	(128,964)	(35,111)
(Decrease)/increase in customers' deposits		(566,916)	(154,347)	4,703,334	1,280,516
Decrease in Islamic customers' deposits		(412,509)	(112,308)	(1,298,107)	(353,419)
Increase in medium-term loans (not qualified as Tier 2 capital)		1,254,172	341,457	866,004	235,776
Increase/(decrease) in deposits and balances due to banks		381,354	103,826	(299,837)	(81,633)
Increase/(decrease) in insurance and life assurance funds		71,937	19,585	(48,946)	(13,326)
Increase in other liabilities		54,304	14,785	2,862,954	779,459
Overseas tax paid		(77,688)	(21,151)	(74,354)	(20,243)
Net cash generated from operating activities		3,179,215	865,564	2,956,687	804,978

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended 31 December 2017 (continued)**

		Year ended 31 December 2017		Year ended 31 December 2016	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	(332,614)	(90,556)	(136,063)	(37,043)
Proceeds from sale of property and equipment		3,110	847	69,192	18,838
Proceeds from sale of investment properties		2,100	572	4,250	1,157
Increase in other financial assets measured at amortised cost		(1,725,470)	(469,771)	(1,419,720)	(386,529)
Net decrease/(increase) in other financial assets measured at FVTOCI		189,471	51,585	(99,194)	(27,006)
Dividend income from other financial assets measured at FVTOCI	29	22,476	6,119	26,878	7,318
Net cash used in investing activities		(1,840,927)	(501,204)	(1,554,657)	(423,265)
Cash flows from financing activities					
Dividend paid		(727,663)	(198,111)	(726,775)	(197,870)
Net cash used in financing activities		(727,663)	(198,111)	(726,775)	(197,870)
Net increase in cash and cash equivalents		610,625	166,249	675,255	183,843
Net foreign exchange difference		231,775	63,100	(239,549)	(65,219)
Cash and cash equivalents at 1 January		20,313,437	5,530,476	19,877,731	5,411,852
Cash and cash equivalents at 31 December	35	21,155,837	5,759,825	20,313,437	5,530,476

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2017

1 General information

Mashreqbank psc (the “Bank”) was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the “Group”), as listed in Note 36.

The address of the Bank’s registered office is P.O. Box 1250, Dubai, United Arab Emirates.

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities*.

2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011).	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where:	1 January 2018
➤ there is consideration that is denominated or priced in a foreign currency;	
➤ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and	
➤ the prepayment asset or deferred income liability is non-monetary.	

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**2 Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 2 <i>Share-Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 <i>Financial Instruments</i> and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018
➤ Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. ➤ Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. ➤ Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	
A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**2 Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.

When IFRS 9 is first applied

IFRS 15 *Revenue from Contracts with Customers*

1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

1 January 2018

Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

1 January 2019

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**2 Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRIC 23 *Uncertainty over Income Tax Treatments*

1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

IFRS 16 *Leases*

1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

1 January 2019

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

1 January 2019

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**2 Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRS 17 Insurance Contracts

1 January 2021

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has in previous years adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments and plans to adopt the final phase of IFRS 9 (impairment and hedge accounting) on the required effective date from 1 January 2018. The Group will avail of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets resulting from the impairment assessment as required by IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Group has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group, until the Group presents its first financial statements that include the date of initial application.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**2 Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective (continued)

(a) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). For revolving facilities including credit cards and overdrafts, the Bank measures ECLs over its contractual maturity period.

The Group has assessed the impairment provisions under IFRS 9 based on a set of inputs and assumptions that include available forward-looking information as economic inputs, significant credit deterioration parameters, Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure At Default ("EAD"). It requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. Accordingly, the estimated impact of adopting the final phase of IFRS 9 will result in an increase in allowance for impairment by 0.91% of the total risk weighted assets as presented in note 42 (a) to the consolidated financial statements. The Group has estimated the impact of adopting of IFRS 9 by running their calculation on 30 November 2017 figures.

For financial guarantee contracts, the Group will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

(b) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group has implemented the system and controls changes that it believes will be necessary to capture the required data.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at their fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except where otherwise indicated.

The principal accounting policies are set out below:

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over an investee,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to affect the amount of the investor's returns.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and/or ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.6 Revenue recognition**Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except for other financial assets measured at fair value through profit and loss (FVTPL), are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss using the effective interest method. Interest income from other financial assets measured at FVTPL is recognised within 'net investment income' in the consolidated statement of profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Recoveries in respect of loans and advances previously provided for are accounted for on a cash receipt basis.

Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.20 (iii).

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(b) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend revenue

Dividend revenue from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

Insurance contracts revenue and insurance commission income

Premiums are recognised as revenue (earned premium) on time-proportion basis over the effective period of policy coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.7 below.

Rendering of services

Consultancy and project services revenue represents the total amount of services rendered and work completed and invoiced, net of discount.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a conversion rate of USD 1.00 = AED 3.673.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 statement of profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's cumulative translation adjustment. Such exchange differences are recognised in the consolidated statement of profit or loss in the period in which the foreign operation is disposed.

On the disposal of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank is reclassified to the consolidated statement of profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	<u>Years</u>
Properties for own use	20 – 25
Furniture, fixtures, equipment and vehicles	4 - 10
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****3 Summary of significant accounting policies (continued)****3.11 Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

3.12 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss.

3.14.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

The Bank classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (a) the entity's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets at amortised cost

A financial asset measured at amortised cost are categorised under such category if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both of the following conditions are met:

- (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (b) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated statement of profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrevocable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****3 Summary of significant accounting policies (continued)****3.14 Financial instruments (continued)****3.14.1 Financial assets (continued)****Financial assets at fair value through other comprehensive income (FVTOCI) (continued)**

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the 'net investment income' line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in Note 43 to the consolidated financial statements.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS and is included in the net gain or loss described above.

Reclassification*Reclassification of financial assets*

When, and only when, the Bank changes its business model for managing financial assets it reclassifies all affected financial assets. If such a reclassification is applied prospectively from the reclassification date. It is not required under IFRS 9 to restate any previously recognised gains, losses (including impairment gains or losses) or interest.

Reclassification from FVTPL to Amortised Cost

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments (other than those financial assets designated as FVTPL) and are measured subsequently at amortised cost. Interest income is recognised in the consolidated statement of profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in consolidated statement of comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

(i) *Individually assessed loans*

These represent mainly corporate loans which are assessed individually by the Group's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loans carrying value and its present value calculated as above.

(ii) *Collectively assessed loans*

Impairment losses of collectively assessed loans include the allowances on:

(a) *Performing commercial and other loans*

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

(b) *Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant*

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of the loan balance is made when it is past due by more than 90 days and less than 120 days and a provision of 50% of the loan balance is made when it is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral held.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated statement of profit or loss, but is reclassified to retained earnings.

3.14.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated statement of profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated statement of profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as 'at FVTPL' when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred for the purpose of repurchasing in the near term; or
- on initial recognition it is part of the portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit making; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of assets or financial liability or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on the remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

3.15 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****3 Summary of significant accounting policies (continued)****3.16 Derivative financial instruments**

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidated statement of profit or loss from that date.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****3 Summary of significant accounting policies (continued)****3.17 Hedge accounting (continued)**Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

3.18 Insurance contracts**3.18.1 Product classification**

Insurance contracts are those contracts when the Group (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. An insurance contract can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract,
 - (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
 - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *Insurance Contracts*, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as liabilities within insurance or investment contract liabilities.

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.18.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.18.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.18.5 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on a time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

(b) Additional reserve

The additional reserve comprises of the provisions made for:

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR), and
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

(c) Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to consolidated statement of profit or loss.

(d) Unit-linked liabilities

For unit-linked policies, liability is equal to the policy account values. The account value is the number of units times the bid price.

(e) Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****3 Summary of significant accounting policies (continued)****3.18 Insurance contracts (continued)****3.18.7 Policy acquisition costs**

Commissions and other acquisition costs that vary with and are related to securing new insurance contracts and renewing existing insurance contracts are recognised as expenses when incurred.

Acquisition costs incurred in securing long-term investments contracts are deferred and amortised over a period of four years.

3.18.8 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.18.9 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss.

3.18.10 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, insurance contract holders and reinsurance companies.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of profit or loss.

3.19 Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'h Supervisory Board.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Ijara

An agreement whereby the Group acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property concluding with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Group and a customer whereby the Group provides a certain amount of funds, which the customer then invests in a specific enterprise or activity against a specific share in the profit. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy (continued)

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijara

Ijara income is recognised on effective profit rate basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(iv) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Sharia'h Supervisory Board.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****4 Critical accounting judgments and key sources of estimation uncertainty (continued)****4.1 Impairment of financial assets measured at amortised cost**

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated statement of profit or loss accordingly.

Individually assessed loans and advances

Impairment losses for individually assessed loans and advances are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

- The customer's aggregate borrowings.
- The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
- The value of the collateral and the probability of successful repossession.
- The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans and advances

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgment of management and guidance received from the Central Bank of the UAE.

Collectively assessed allowances are also made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of the loan balance is made when it is past due by more than 90 days and less than 120 days, and a provision of 50% of the loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****4 Critical accounting judgments and key sources of estimation uncertainty (continued)****4.2 Property and equipment**

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4.4 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models, recognised market accepted pricing models and from counterparty statements. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (b) An appropriate discount rate of the instrument. Management determines this rate by observing market pricing data. When valuing instruments by reference to comparable instruments, management takes into account the maturity and structure with which the position held is being compared.

4.5 Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

4.6 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.7 Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

4.8 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Cash on hand	1,150,663	1,049,505
Balances with central banks:		
Current accounts and other balances	6,958,948	6,774,795
Statutory deposits	6,639,465	6,905,282
Certificates of deposit	2,150,000	3,900,000
	<u>16,899,076</u>	<u>18,629,582</u>

(b) The geographical analysis of the cash and balances with central banks is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Balances within the U.A.E.	11,406,485	12,048,216
Balances outside the U.A.E.	5,492,591	6,581,366
	<u>16,899,076</u>	<u>18,629,582</u>

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 1.07% (31 December 2016: 0.74%) per annum.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Demand	1,838,441	1,418,631
Overnight	32,547	55,000
Time	18,264,439	17,194,119
	20,135,427	18,667,750
Less: Allowance for impairment	-	-
	20,135,427	18,667,750

(b) The above represent deposits and balances due from:

	31 December 2017 AED'000	31 December 2016 AED'000
Banks within the U.A.E.	3,218,938	3,454,654
Banks outside the U.A.E.	16,916,489	15,213,096
	20,135,427	18,667,750
Less: Allowance for impairment	-	-
	20,135,427	18,667,750

(c) *Allowance for impairment movement:*

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	-	122
Charge during the year (Note 32)	5,174	-
Written off during the year	(5,174)	-
Reversal of interest in suspense	-	(122)
	-	-
At end of the year	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	437,727	1,113,396
<i>Equities</i>		
Quoted	3,548	-
Unquoted	222	215
	<u>3,770</u>	<u>215</u>
Mutual and other funds	512,707	536,909
	<u>954,204</u>	<u>1,650,520</u>
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
<i>Equities</i>		
Quoted	355,543	384,214
Unquoted	259,886	348,294
	<u>615,429</u>	<u>732,508</u>
Mutual and other funds [Note 7(g)]	10,912	36,171
	<u>626,341</u>	<u>768,679</u>
Total other financial assets measured at fair value (A)	<u>1,580,545</u>	<u>2,419,199</u>
(iii) Financial assets measured at amortised cost		
Debt securities	12,583,404	10,961,296
Less: Allowance for impairment	-	(111,998)
Total other financial assets measured at amortised cost (B)	<u>12,583,404</u>	<u>10,849,298</u>
Total other financial assets [(A) +(B)]	<u>14,163,949</u>	<u>13,268,497</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

7 Other financial assets (continued)

(b) The geographic analysis of other financial assets is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Balances within the U.A.E.	3,316,519	3,494,333
Balances outside the U.A.E.	10,847,430	9,774,164
	14,163,949	13,268,497

(c) The analysis of other financial assets by industry sector is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Government and Public Sector	7,914,696	5,935,271
Commercial and Business	473,889	1,582,603
Financial Institutions	5,759,337	5,471,961
Other	16,027	278,662
	14,163,949	13,268,497

(d) The movement of the allowance for impairment of financial assets measured at amortised cost during the year was as follows:

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At the beginning of the year	111,998	111,998
Written off during the year	(111,998)	-
At end of the year	-	111,998

(e) The fair value of other financial assets measured at amortised cost amounted to AED 12.58 billion as of 31 December 2017 (31 December 2016: AED 10.76 billion) (Note 43).

(f) At 31 December 2017, certain financial assets measured at amortised costs included debt securities aggregating to notional value of AED 584 million (fair value of AED 597 million) [31 December 2016: notional value of AED 623 million (fair value of AED 634 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 557 million (31 December 2016: AED 606 million) (Note 15).

(g) Other financial assets measured at FVTOCI include AED 11 million (31 December 2016: AED 36 million) which represents investments in the Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and fair value of the fund is based on the quoted market price.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

7 Other financial assets (continued)

- (h) Other financial assets measured at FVTPL include AED 174 million (31 December 2016: AED 225 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund and Mashreq Al Islami Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the quoted market price.
- (i) As of 31 December 2017, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.
- (j) During the year ended 31 December 2017, dividends received from financial assets measured at FVTOCI amounting to AED 22 million (31 December 2016: AED 27 million) were recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (k) During the year ended 31 December 2017, change in fair value of other financial assets measured at FVTPL amounted to a profit of AED 30 million (31 December 2016: a profit of AED 6 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (l) During the year ended 31 December 2017, change in fair value of financial assets measured at FVTOCI amounted to a profit of AED 47 million (31 December 2016: a profit of AED 12 million) and was recognised in the consolidated statement of comprehensive income.
- (m) During the year ended 31 December 2017, the Group purchased and disposed equity shares amounted to AED 585 million (31 December 2016: 250 million) and AED 754 million (31 December 2016: 174 million) respectively.
- (n) During the year ended 31 December 2017, AED nil (31 December 2016: AED 1.4 billion) investments measured at FVTPL were reclassified to other financial assets measured at amortised cost.

8 Loans and advances measured at amortised cost

- (a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Loans	49,882,585	48,720,940
Overdrafts	3,616,522	4,684,243
Credit cards	2,508,764	2,784,011
Other	455,499	459,800
	56,463,370	56,648,994
Less: Allowance for impairment	(3,069,205)	(3,220,533)
	53,394,165	53,428,461

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

8 Loans and advances measured at amortised cost (continued)

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Manufacturing	4,065,460	3,864,320
Construction	7,007,373	5,503,953
Trade	8,089,372	9,010,501
Transport and communication	3,687,823	3,844,615
Services	7,305,890	5,698,416
Financial institutions	1,250,621	1,824,699
Personal	15,956,457	16,581,261
Government and related enterprises	9,100,374	10,304,888
Other	-	16,341
	56,463,370	56,648,994
Less: Allowance for impairment	(3,069,205)	(3,220,533)
	53,394,165	53,428,461

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated statement of profit or loss. The value of loans and advances on which interest is not taken to consolidated statement of profit or loss, including fully provided accounts, amounted to AED 1.94 billion at 31 December 2017 (31 December 2016: AED 2.20 billion) (Note 43).

(d) The movement of the allowance for impairment and suspended interest of loans and advances measured at amortised cost during the year was as follows:

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	3,220,533	2,766,169
Impairment allowance for the year (Note 32)	792,976	903,225
Interest in suspense	166,445	117,174
Exchange rate and other adjustments	17,328	(46,986)
Recoveries during the year (Note 32)	-	(3,900)
Written off during the year	(1,128,077)	(515,149)
	3,069,205	3,220,533
At end of the year	3,069,205	3,220,533

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

8 Loans and advances measured at amortised cost (continued)

- (e) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

9 Islamic financing and investment products measured at amortised cost

- (a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
<u>Financing</u>		
Murabaha	5,699,170	3,694,743
Ijara	3,900,129	3,122,514
	<u>9,599,299</u>	<u>6,817,257</u>
<u>Investment</u>		
Mudaraba	17,866	232,355
Wakala	30,278	728,496
	<u>48,144</u>	<u>960,851</u>
Total	9,647,443	7,778,108
Less: Unearned income	(190,849)	(157,800)
Allowance for impairment	(117,127)	(55,245)
	<u>9,339,467</u>	<u>7,565,063</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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:

	31 December 2017 AED'000	31 December 2016 AED'000
Manufacturing	617,632	605,964
Construction	2,078,178	1,988,459
Trade	752,398	799,626
Transport and communication	256,280	323,846
Services	2,900,735	1,835,386
Financial institutions	464,216	278,256
Personal	2,124,242	1,783,541
Government and related enterprises	453,762	163,030
Total	9,647,443	7,778,108
Less: Unearned income	(190,849)	(157,800)
Allowance for impairment	(117,127)	(55,245)
	9,339,467	7,565,063

- (c) The value of Islamic financing and investment products on which profit is not taken to consolidated statement of profit or loss, including fully provided accounts, amounted to AED 281 million as at 31 December 2017 (31 December 2016: AED 71 million) (Note 43).

- (d) *Allowance for impairment movement:*

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	55,245	48,631
Impairment allowance during the year, net (Note 32)	57,320	19,775
Profit/(reversal of profit) in suspense	5,957	(145)
Written off during the year	(1,395)	(13,016)
At end of the year	117,127	55,245

- (e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

10 Other assets

	31 December 2017 AED'000	31 December 2016 AED'000
Interest receivable	199,276	237,529
Property acquired in settlement of debts*	-	114,498
Prepayments	119,419	93,349
Acceptances**	6,379,818	5,831,534
Positive fair value of derivatives (Note 41)	492,580	863,918
Insurance related receivables	1,491,343	1,728,520
Credit card interchange receivables	119,063	94,405
Taxes paid in advance	86,206	60,309
Other	493,366	528,254
	9,381,071	9,552,316

* As of 31 December 2017, property acquired in settlement of debts includes land with a cost of AED 62 million which was fully provided (31 December 2016: AED 226 million against which a provision of AED 113 million was held). The land is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

** Acceptances are recognised as a financial liability (Note 19) in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

11 Goodwill

During 2012, Oman Insurance Company P.S.C, a subsidiary of the Bank acquired a 51% interest in Dubai Group Sigorta A.Ş, a company established and registered in Istanbul, Turkey, which is engaged in the business of issuing short term and long term insurance contracts relating to general insurance. Dubai Group Sigorta A.Ş. was acquired by the Group with the objective of improving its overall geographical spread.

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (31 December 2016: 32.61%).

12 Investment properties

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
<i>At fair value</i>		
At beginning of the year	520,864	527,525
Change in fair value during the year (Note 30)	(773)	(2,161)
Disposals during the year	(2,400)	(4,500)
	517,691	520,864
At end of the year	517,691	520,864

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****12 Investment properties (continued)**

All of the Group's investment properties are held under freehold interest and located in the U.A.E.

The fair value of investment properties as at 31 December 2017 has been arrived at on the basis of a valuation carried out by independent professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

There has been no change to the valuation technique during the year.

The fair value of the Group's investment properties is based on unobservable market inputs, i.e. Level 3.

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

13 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Ca wor pro AED
Cost				
At 1 January 2016	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
Additions during the year	112	43,258	87,089	20
Transfers	-	31,493	-	(3
Disposals/write-offs	(262,968)	(84,617)	(106,779)	
At 31 December 2017	845,900	492,907	487,621	20
Accumulated depreciation and impairment				
At 1 January 2016	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	
Charge for the year (Note 31)	18,416	58,604	73,580	
Eliminated on disposals/write-offs	(262,921)	(80,534)	(106,233)	
At 31 December 2017	169,520	297,558	224,872	
Carrying amount				
At 31 December 2017	676,380	195,349	262,749	20
At 31 December 2016	694,731	183,285	249,786	3

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Time	6,091,703	5,743,217
Demand	1,813,553	1,538,551
Overnight	1,408,174	1,650,308
	9,313,430	8,932,076

(b) The above represent borrowings from:

	31 December 2017 AED'000	31 December 2016 AED'000
Banks within the U.A.E.	2,441,575	1,734,671
Banks outside the U.A.E.	6,871,855	7,197,405
	9,313,430	8,932,076

15 Repurchase agreements with banks

Repricing	Maturity date	Interest rate	31 December 2017 AED'000	31 December 2016 AED'000
1 month	January 2017	1.43% per annum	-	35,028
3 months	March 2017	1.43% per annum	-	468,400
3 months	March 2017	1.53% per annum	-	102,172
3 months	January 2018	1.74% per annum	557,183	-
			557,183	605,600

Collateral given against these Repo borrowings is disclosed in Note 7(f) to the consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Current and other accounts	41,112,782	41,053,475
Saving accounts	3,371,737	3,406,698
Time deposits	24,895,689	25,486,951
	69,380,208	69,947,124

(b) Analysis by industry sector:

	31 December 2017 AED'000	31 December 2016 AED'000
Government and public sector	6,584,226	4,915,852
Commercial and business	44,473,956	46,572,635
Personal	15,290,216	14,774,919
Financial institutions	3,004,561	3,553,712
Other	27,249	130,006
	69,380,208	69,947,124

17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Current and other accounts	3,382,619	3,784,930
Saving accounts	141,869	124,373
Time deposits	3,156,386	3,184,080
	6,680,874	7,093,383

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

	31 December 2017 AED'000	31 December 2016 AED'000
Government and public sector	137,302	833,475
Commercial and business	3,153,294	3,177,647
Personal	831,145	626,409
Financial institutions	2,559,133	2,455,852
	6,680,874	7,093,383

18 Insurance and life assurance funds

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	Insurance related other fund AED'000	Total AED'000
At 1 January 2016	397,593	489,497	149,082	523,532	-	1,559,704
Increase/(decrease)	(21,528)	30,075	(34,153)	(32,843)	9,503	(48,946)
At 31 December 2016	376,065	519,572	114,929	490,689	9,503	1,510,758
Increase/(decrease)	(4,817)	60,630	2,875	13,649	(400)	71,937
At 31 December 2017	371,248	580,202	117,804	504,338	9,103	1,582,695

Unearned premium reserve is calculated on time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for all assurance business.

Life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

19 Other liabilities

	31 December 2017 AED'000	31 December 2016 AED'000
Interest payable	371,635	320,903
Negative fair value of derivatives (Note 41)	440,829	872,229
Acceptances*	6,379,818	5,831,534
Insurance premium collected in advance	732,757	928,873
Accrued expenses	624,844	536,747
Income received in advance	169,358	190,342
Pay orders issued	433,072	374,654
Provision for employees' end of service indemnity**	202,318	189,946
Provision for taxation	110,463	87,935
Other	856,300	933,927
	10,321,394	10,267,090

* Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset (Note 10).

** Provision for employees' end of service indemnity included AED 189 million (31 December 2016: AED 176 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside U.A.E and is computed based on the local laws and regulations of respective jurisdictions.

20 Medium-term loans

	31 December 2017 AED'000	31 December 2016 AED'000
Medium term notes	6,226,032	3,135,360
Syndicated Loan	-	1,836,500
	6,226,032	4,971,860

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

20 Medium-term loans (continued)

(a) The maturities of the medium-term notes (MTNs) issued under the programme are as follows:

Year	31 December 2017 AED'000	31 December 2016 AED'000
2017	-	2,875,365
2018	5,017,966	190,885
2019	249,530	69,110
2020	436,970	-
2021	183,650	-
2022	337,916	-
	6,226,032	3,135,360

Medium term notes are denominated in following currencies:

	31 December 2017 AED'000	31 December 2016 AED'000
U.S. Dollars	5,141,833	2,329,784
Japanese Yen	573,156	297,896
Swiss Francs	190,379	111,412
Chinese Yuan	142,390	135,790
Euro	120,335	139,403
Australian Dollars	57,939	-
Kuwaiti Dinar	-	121,075
	6,226,032	3,135,360

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the year ended 31 December 2017, new medium-term notes of AED 5.96 billion were issued and AED 2.88 billion of medium-term notes were redeemed.

Included in 31 December 2016 was an AED 1.02 billion subordinated floating rate note ("FRN") which qualified and was approved by U.A.E. Central Bank as Tier 2 subordinated loan capital until 2012. This was being consequently amortised at the rate of 20% per annum for capital adequacy calculation purposes and had matured in January 2017.

(b) During the year ended 31 December 2014, the Group signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility was to finance general corporate activities. The facility had a tenor of 3 years and was fully settled upon maturity on 14 July 2017. The facility had carried an interest rate of LIBOR plus a margin of 125 basis points, which was paid on a quarterly basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2017, 177,530,823 ordinary shares of AED 10 each (31 December 2016: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

(d) Cumulative translation adjustment

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the cumulative translation adjustment reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the cumulative translation adjustment reserve. Exchange differences previously accumulated in the cumulative translation adjustment reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a profit of AED 47 million (31 December 2016: profit of AED 12 million) and was reflected in the consolidated statement of comprehensive income.

(f) Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

21 Issued and paid up capital and reserves (continued)

(f) Cash flow hedging reserve (continued)

The movement of the cash flow hedging reserve is below:

	31 December 2017 AED'000	31 December 2016 AED'000
At beginning of the year	7,624	9,221
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	-	53,333
Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated statement of profit or loss	(7,624)	(54,930)
At end of the year	-	7,624

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 6 March 2017, the shareholders approved a cash dividend of 40% for the year ended 31 December 2016 (31 December 2015: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2015: AED 710 million).

22 Non-controlling interests

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
At beginning of the year	728,009	717,118
Profit for the year	37,210	27,499
Other comprehensive income for the year	15,295	47
Dividends paid	(17,540)	(16,655)
At end of the year	762,974	728,009

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

23 Contra accounts and commitments

(a) The analysis of the Group's contra accounts and commitments is as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
(i) Contra accounts (memoranda)		
Guarantees	41,576,490	38,285,010
Letters of credit	5,384,712	4,743,855
	46,961,202	43,028,865
(ii) Commitments for acquisition of property and equipment	657,789	692,262
(iii) Operating lease commitments	98,753	93,181
Total contra accounts and commitments	47,717,744	43,814,308

(b) Irrevocable undrawn facilities commitments as at 31 December 2017 amounted to AED 6.12 billion (31 December 2016: AED 7.97 billion).

(c) Contra accounts – maturity profile

The maturity profile of the Group's contra accounts were as follows:

31 December 2017

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	11,482,029	1,384,484	3,289,513	10,453,337	14,967,127	41,576,490
Letters of credit	3,982,788	566,130	200,765	635,029	-	5,384,712
Total	15,464,817	1,950,614	3,490,278	11,088,366	14,967,127	46,961,202

31 December 2016

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	13,567,567	2,068,757	2,854,051	7,437,463	12,357,172	38,285,010
Letters of credit	3,359,779	492,225	332,929	558,922	-	4,743,855
Total	16,927,346	2,560,982	3,186,980	7,996,385	12,357,172	43,028,865

The analysis of commitments and contingencies by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

23 Contra accounts and commitments (continued)

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Less than 1 year	37,500	37,121
1 to 5 years	47,458	46,077
Over 5 years	13,795	9,983
Total	98,753	93,181

24 Interest income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Loans and advances	3,436,536	3,392,622
Banks	682,467	520,761
Other financial assets	474,613	411,008
Central banks	90,482	141,688
	4,684,098	4,466,079

25 Income from Islamic financing and investment products

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
<u>Financing</u>		
Murabaha	204,112	177,935
Ijara	155,240	112,108
Other	26,417	9,466
	385,769	299,509

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

25 Income from Islamic financing and investment products (continued)

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
<u>Investment</u>		
Mudaraba	1,088	10,518
Wakala	19,819	37,528
	20,907	48,046
Total	406,676	347,555

26 Interest expense

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Customers' deposits	885,366	861,470
Deposits and balances due to banks	412,665	397,935
Medium-term loans	142,419	86,125
	1,440,450	1,345,530

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Sharia'h Supervisory Board.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

28 Net fee and commission income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Fee and commission income		
Commission income	577,370	538,202
Insurance commission	327,951	320,466
Fees and charges on banking services	582,066	688,844
Credit card related fees	1,266,160	1,272,004
Other	234,929	229,626
Total fee and commission income	2,988,476	3,049,142
Fee and commission expenses		
Commission expense	(19,376)	(35,074)
Insurance commission	(381,964)	(348,852)
Credit card related expenses	(951,176)	(898,576)
Other	(78,361)	(81,967)
Total fee and commission expenses	(1,430,877)	(1,364,469)
Net fee and commission income	1,557,599	1,684,673

29 Net investment income

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	44,744	24,029
Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)]	30,380	6,310
Interest income from debt securities at FVTPL	80,514	204,709
Dividends income from other financial assets measured at FVTPL	618	1,081
Net realised gain/(loss) from sale of other financial assets measured at amortised cost	8,636	(490)
Dividend income from financial assets measured at FVTOCI [Note 7 (j)]	22,476	26,878
	187,368	262,517

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

30 Other income, net

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Fair value adjustments of investment properties (Note 12)	(773)	(2,161)
Foreign exchange gains, net	439,552	423,478
Insurance and other related income, net [Note 30(a)]	435,199	393,352
(Loss)/gain on disposal of property and equipment	(1,566)	53,837
Loss from disposal of investment properties	(300)	(250)
Fair value adjustment – derivatives	64	6,954
Other	(99,910)	(16,142)
	772,266	859,068

(a) Insurance and other related income, net

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Net insurance premium revenue	1,453,899	1,342,328
Net claims incurred	(1,326,533)	(1,249,606)
Other insurance related income, net	307,833	300,630
	435,199	393,352

31 General and administrative expenses

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Salaries and employees related expenses	1,371,069	1,365,105
Depreciation on property and equipment (Note 13)	150,600	155,611
Social contributions	-	-
Other	839,087	885,985
	2,360,756	2,406,701

Pension and national insurance contribution for U.A.E. citizens are made by the Group in accordance with Federal Law No. 7 of 1999.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

32 Allowances for impairment, net

31 December 2017

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for impaired loans and advances, net [Note 8 (d)]	143,823	512,894	136,259	792,976
Allowance for other assets, net	-	36,280	-	36,280
Allowance for deposits and balances due from banks, net [Note 6 (c)]	-	5,174	-	5,174
Allowance for impaired islamic assets, net [Note 9(d)]	696	56,624	-	57,320
Write-off of impaired loans and advances	671,802	-	-	671,802
Recovery of loans and advances previously written off	(43,218)	(32,652)	-	(75,870)
	<u>773,103</u>	<u>578,320</u>	<u>136,259</u>	<u>1,487,682</u>

31 December 2016

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for impaired loans and advances, net [Note 8 (d)]	187,055	573,358	142,812	903,225
Allowance for other assets, net	-	37,617	-	37,617
Allowance for impaired islamic assets, net [Note 9(d)]	5,429	14,346	-	19,775
Write-off of impaired loans and advances	890,472	-	-	890,472
Recovery of allowance against impaired loans and advances [Note 8 (d)]	-	(3,900)	-	(3,900)
Recovery of loans and advances previously written off	(44,858)	(68,672)	-	(113,530)
	<u>1,038,098</u>	<u>552,749</u>	<u>142,812</u>	<u>1,733,659</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

33 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Profit for the year (AED'000) (Attributed to owners of the Parent)	2,052,320	1,926,412
Number of ordinary shares outstanding [Note 21 (a)]	177,530,823	177,530,823
Basic and diluted earnings per share (AED)	11.56	10.85

34 Proposed dividends

The Board of Directors has proposed 40% cash dividend at their meeting held on 28 January 2018.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
Cash on hand	1,150,663	1,049,505
Current accounts and other balances	6,958,948	6,774,795
Deposits and balances due from banks maturing within 3 months	13,046,226	12,489,137
	21,155,837	20,313,437

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

36 Investment in subsidiaries

- (a) At 31 December 2017 and 31 December 2016, Mashreqbank psc Group (the "Group") comprises the Bank and the following direct material subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
Oman Insurance Company (PSC) Group	United Arab Emirates	63.94	63.94	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	100.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special Purpose vehicle

- (b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

Name of Subsidiary	Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interest	
	Year ended 31 December 2017 AED '000	Year ended 31 December 2016 AED '000	Year ended 31 December 2017 AED '000	Year ended 31 December 2016 AED '000
Oman Insurance Company (PSC) Group	37,863	25,770	757,797	721,884
Individually immaterial subsidiaries with non-controlling interests	(653)	1,729	5,177	6,125
	37,210	27,499	762,974	728,009

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

36 Investment in subsidiaries (continued)

- (c) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interests. The financial information represents balances before intra-group eliminations.

	31 December 2017 AED'000	31 December 2016 AED'000
<i>Statement of financial position</i>		
Total assets	7,404,690	7,194,384
Total liabilities	5,342,944	5,235,972
Net equity	2,061,746	1,958,412
	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
<i>Statement of comprehensive income</i>		
Net insurance premium revenue	1,453,899	1,342,328
Net claims incurred	(1,326,533)	(1,249,606)
Net commission and other (loss)/income	(10,476)	15,504
Net investment income	76,377	73,290
Net expenses	(88,783)	(101,302)
Profit for the year	104,484	80,214
Other comprehensive income	45,435	9,517
Total comprehensive income	149,919	89,731
<i>Statement of cash flows</i>		
Net cash generated from/(used in) operating activities	39,020	(49,144)
Net cash generated from/(used in) investing activities	77,633	(52,588)
Net cash flows (used in)/generated from financing activities	(172,992)	288,056
Net (decrease)/increase in cash and cash equivalents	(56,339)	186,324

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

37 Related party transactions

- (a) Certain “related parties” (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family who own 87.99% (31 December 2016: 87.76%) of the issued and paid up capital.
- (c) Related party balances included in the consolidated statement of financial position are as follows:

	31 December 2017 AED '000	31 December 2016 AED '000
Loans and advances measured at amortised cost	3,310,595	2,586,403
Customer's deposits	1,513,781	1,216,323
Letters of credit and guarantee	1,333,097	1,163,375

- (d) Profit for the year includes related party transactions as follows:

	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000
Interest income	137,850	85,685
Interest expense	7,650	7,809
Other income, net	53,314	53,779

- (e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 130 million (31 December 2016: AED 124 million).

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

38 Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2017			
	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000	Assets AED'000
U.A.E.	72,199,206	63,381,256	31,563,594	74,224,411
Other Middle East Countries	21,383,310	15,283,490	7,048,442	21,313,748
O.E.C.D.	11,396,159	13,379,797	4,114,015	10,258,253
Other	20,209,561	12,017,273	4,235,151	17,017,124
	<u>125,188,236</u>	<u>104,061,816</u>	<u>46,961,202</u>	<u>122,813,536</u>

(b) Industry Sector

	31 December 2017			
	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000	Assets AED'000
Government and Public Sector	17,156,003	6,871,995	2,318,647	16,159,314
Commercial & Business	42,246,661	55,233,697	33,558,324	38,385,617
Personal	17,201,011	16,723,583	900,117	17,464,353
Financial Institutions	45,487,290	24,682,712	10,184,114	49,325,148
Other	3,097,271	549,829	-	1,479,104
	<u>125,188,236</u>	<u>104,061,816</u>	<u>46,961,202</u>	<u>122,813,536</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 2017 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2017				
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000
Net interest income and earnings from Islamic products	877,143	1,013,250	65,111	695,033	345,152
Other income, net	483,763	517,012	551,318	546,279	133,957
Total operating income	1,360,906	1,530,262	616,429	1,241,312	479,109
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	32,797,764	13,487,094	17,584,540	31,141,254	10,342,771
Segment Liabilities	32,527,369	25,491,243	9,253,428	19,433,187	7,412,273

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2016				
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000
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

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

39 Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – U.A.E. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers *		Non-current assets **	
	Year ended 31 December 2017 AED'000	Year ended 31 December 2016 AED'000	31 December 2017 AED'000	31 December 2016 AED'000
U.A.E.	4,931,410	5,018,642	1,823,162	1,654,537
Other Middle East countries	793,124	904,865	28,033	26,987
O.E.C.D.	234,515	192,806	7,862	3,625
Other countries	56,607	52,312	16,024	16,718
	6,015,656	6,168,625	1,875,081	1,701,867

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property and equipment, investment properties and goodwill.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2017.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

40 Classification of financial assets and liabilities

- (a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	FVTPL	FVTOCI	Amortised	Total
	AED'000	AED'000	cost	AED'000
			AED'000	
Financial assets:				
Cash and balances with central banks	-	-	16,899,076	16,899,076
Deposits and balances due from banks	-	-	20,135,427	20,135,427
Other financial assets measured at fair value	954,204	626,341	-	1,580,545
Loans and advances measured at amortised cost	-	-	53,394,165	53,394,165
Islamic financing and investment products measured at amortised cost	-	-	9,339,467	9,339,467
Other financial assets measured at amortised cost	-	-	12,583,404	12,583,404
Other assets	492,580	-	8,682,866	9,175,446
	<u>1,446,784</u>	<u>626,341</u>	<u>121,034,405</u>	<u>123,107,530</u>
Total	1,446,784	626,341	121,034,405	123,107,530

	FVTPL	FVTOCI	Amortised	Total
	AED'000	AED'000	cost	AED'000
			AED'000	
Financial liabilities:				
Deposits and balances due to banks	-	-	9,313,430	9,313,430
Repurchase agreements with banks	-	-	557,183	557,183
Customers' deposits	-	-	69,380,208	69,380,208
Islamic customers' deposits	-	-	6,680,874	6,680,874
Other liabilities	440,829	-	8,665,669	9,106,498
Medium-term loans	-	-	6,226,032	6,226,032
	<u>440,829</u>	<u>-</u>	<u>100,823,396</u>	<u>101,264,225</u>
Total	440,829	-	100,823,396	101,264,225

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

40 Classification of financial assets and liabilities (continued)

- (b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	18,629,582	18,629,582
Deposits and balances due from banks	-	-	18,667,750	18,667,750
Other financial assets measured at fair value	1,650,520	768,679	-	2,419,199
Loans and advances measured at amortised cost	-	-	53,428,461	53,428,461
Islamic financing and investment products measured at amortised cost	-	-	7,565,063	7,565,063
Other financial assets measured at amortised cost	-	-	10,849,298	10,849,298
Other assets	863,918	-	8,420,242	9,284,160
Total	2,514,438	768,679	117,560,396	120,843,513
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 2017 (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 2017 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2017

				Notional amount	
	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
<i>Derivatives held for trading:</i>					
Forward foreign exchange contract	186,209	141,491	47,528,180	37,649,639	4,662,335
Foreign exchange options (bought)	-	1,260	370,624	208,329	108,759
Foreign exchange options (sold)	1,264	-	338,348	176,052	108,761
Interest rate swaps	296,025	286,118	24,816,656	967,349	1,812,882
Credit default swaps	-	1,410	36,730	-	-
Futures contracts purchased (Customer)	64	-	207,696	109,226	98,470
Futures contracts sold (Customer)	-	7,671	370,666	368,538	2,128
Futures contracts sold (Bank)	1,108	64	970,018	278,311	120,983
Futures contracts purchased (Bank)	7,910	-	404,769	402,641	2,128
Total	492,580	438,014	75,043,687	40,160,085	6,916,446
<i>Derivatives held as fair value hedge:</i>					
Cross-currency swap	-	2,815	185,280	-	-
Total	492,580	440,829	75,228,967	40,160,085	6,916,446

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2016

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	Notional 3 – 6 months AED'000
<i>Derivatives held for trading:</i>					
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	-
	<u>808,766</u>	<u>872,229</u>	<u>77,136,902</u>	<u>35,098,564</u>	<u>6,798,024</u>
<i>Derivatives held as cash flow hedges:</i>					
Cross-currency swaps	55,152	-	270,735	270,735	-
	<u>55,152</u>	<u>-</u>	<u>270,735</u>	<u>270,735</u>	<u>-</u>
Total	863,918	872,229	77,407,637	35,369,299	6,798,024

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the U.A.E. adopted the Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly-owned excluding non-controlling interest in insurance company, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes general provisions (collective allowance for impairment subject to a limit of 1.25% of CRWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (up to a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI.
- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however, the Regulator may allow use of excess capital (over regulatory limits) invested.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA.

The Group's assets are risk-weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. For U.A.E. Central Bank reporting purposes, the Bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

42 Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an ICAAP to demonstrate to the Central Bank of the U.A.E that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the U.A.E conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

(a) The Group's regulatory capital positions as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017 AED'000	31 December 2016 AED'000
<i>Tier 1 capital</i>		
Issued and paid up capital	1,775,308	1,775,308
Statutory and legal reserve	901,621	899,351
General reserve	312,000	312,000
Cumulative translation adjustment	(59,163)	(298,562)
Goodwill	(14,414)	(15,365)
Retained earnings	17,618,669	16,310,198
Non-controlling interest	5,070	6,123
Deduction from Tier 1 Capital	(24,763)	(24,288)
Total	20,514,328	18,964,765
<i>Tier 2 capital</i>		
Allowance for collective impairment	1,322,445	1,325,100
Investments revaluation reserve	(184,989)	(248,283)
Cash flow hedging reserve	-	7,624
Qualifying subordinated liabilities*	-	17,012
Deduction from Tier 2 Capital	(24,763)	(24,288)
Total	1,112,693	1,077,165
Total capital base	21,627,021	20,041,930

(A)

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

42 Capital management (continued)

Regulatory capital (continued)

		31 December 2017 AED'000	31 December 2016 AED'000
<i>Risk-weighted assets</i>			
Credit risk		105,795,571	106,007,825
Market risk		1,744,305	2,498,202
Operational risk		10,428,732	10,367,924
Total risk-weighted assets	(B)	117,968,608	118,873,951
Capital adequacy ratio	[(A)/(B) x 100]	18.33%	16.86%

* Qualifying subordinated liabilities represents the following:

	31 December 2017 AED'000	31 December 2016 AED'000
Medium-term notes [Note 20]	-	1,020,726
Less: Cumulative amortisation	-	(1,003,714)
	-	17,012

As per Central bank regulation for Basel III , the capital requirement in the year 2017 is 11.75% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.

The bank must comply with the following minimum requirement :

- CET1 must be at least 7% of risk weighted assets (RWA);
- Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
- Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);

Additionally capital conservation buffer is to be maintained at 1.25% in year 2017 , this will increase to 2.5% by year 2019.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

42 Capital management (continued)

Regulatory capital (continued)

(b) The Group's regulatory capital positions as at 31 December 2017 under Basel III is as follows:

		31 December 2017 AED'000
<i>Capital Base:</i>		
Tier 1 capital*		19,800,859
Tier 2 capital		1,191,742
Total capital base	(A)	20,992,601
<i>Risk-weighted assets</i>		
Credit risk		110,138,527
Market risk		1,744,305
Operational risk		10,428,732
Total risk-weighted assets	(B)	122,311,564
Capital adequacy ratio	[(A)/(B) x 100]	17.16%

* Proposed Dividend is adjusted while calculating Tier 1 capital.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****43 Risk management**

The core responsibility of the Risk Management Group is to identify, measure, mitigate, price and manage risk to ensure that the Bank generates sustainable returns by maintaining acceptable asset quality and meeting the desired return on capital as mandated by the shareholders.

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Groups ability to consistently foster a robust risk management culture and framework is an important factor in its financial stability and growth.

Risk Management Framework

The Board of Directors (the “BoD”) has overall responsibility for the establishment and oversight of the Group’s risk management framework and they are assisted by various committees including the Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee etc. These committees work under terms of reference set by the BoD; approve all risk management policies for the Bank.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Group. The Risk Committee is responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Risk Committee also monitors and establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain asset quality.

The Risk Management Group function is independent of the business groups and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Audit, Fraud and Compliance Group (AFCG) are independent of Risk Management. AFCG provides independent assurance to stakeholders and senior management on compliance with all credit policies and procedures in the Bank and the effectiveness of credit management processes. This is undertaken by a periodic review of all risk-taking units, in addition to Risk Management. AFCG reports directly to the Chief Executive Officer (CEO).

Risk Analytics and Modelling:

Mashreq has robust metrics in place for determining Probability of Default (“PD”), Loss Given Default (“LGD”), and Exposure At Default (“EAD”) variables. The Basel Risk Analytics and Modelling Unit within Risk Management Group is responsible as per Basel II guidelines for periodically validating various risk rating models including recalibration of PD, LGD and EAD parameters.

The Internal Capital Adequacy Assessment Process (ICAAP) and the Stress Testing team within Risk Management Group is responsible for calculating the Group’s economic capital requirement and managing the Group’s ICAAP. This entails monitoring the Group’s capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group’s capital buffer (measured as available capital less required risk capital) and recommending appropriate actions, as warranted.

As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing on its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific obligors or industries and/or due to global risk events and their implications on the Group’s client base, and (ii) determine portfolio direction and resource allocation accordingly.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****43 Risk management (continued)****Credit risk management**

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, dues from banks and financial institutions and non-trading investment activities.

Credit risk to both corporate and individuals is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established through adoption of prudent credit structures relevant to the credit risk. To reduce individual counterparty credit risk, the Group ensures that, whenever necessary, loans are secured by an acceptable form of collateral. The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate performing borrower is assigned an internal rating and non-performing borrowers are assigned ratings of non-accrual under restructuring (NAUR), substandard, doubtful and loss.

Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

All credit policies are reviewed and approved by the Bank's Risk Committee. The policies are reviewed regularly to reflect changes in market conditions or regulatory requirements.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. Credit risk is also mitigated through adoption of prudent credit structures relevant to the credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale credit risk management

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group to be inherently risky or speculative.

Limit setting is based on a combination of factors, including a detailed evaluation of each customer's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

The Wholesale Credit Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management and approved by the Group's Chief Executive Officer (the "CEO").

The Group has established limits for managing transferability and convertibility risks, together defined as cross-border risk limits. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on each country's financial strength and stability, using a set of metrics such as external debt, overall fiscal position, exports, imports, foreign exchange reserves and external debt service ratio. These limits are then applied to all international transaction flows where there is a risk of default represented by convertibility and/or transferability restrictions.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****43 Risk management (continued)****Credit risk management (continued)*****Wholesale credit risk management (continued)***

Wholesale Credit Risk Management includes Special Assets Management Group that manages credits that are rated as watch list and worse. Special Assets Management Group was established to have a more focused view on all remedial accounts and, on a pro-active basis, identify and take timely actions on potential weak credits and also perform a recovery function.

Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports to Operations & Technology Group.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to the approved product program, which is devised in accordance with guidelines set out in the retail credit policy manual approved by the Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models for high volume products such as Credit cards and Personal loans and based on manual underwriting on documented policies for low volume products such as Mortgages and Auto loans. Periodic and detailed credit reviews are performed at portfolio level to monitor and track portfolio performance.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels are also captured in the Product Program.

Credit review procedures

Specialists within AFCG undertake regular reviews of the portfolio. In the wholesale portfolio this involves sampling of assets. In retail the focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the Group's internal policies in order to assist in the early identification of potential problems and ensure approved credit policies, guidelines and operating procedures across the Group are implemented.

Loan classification

As per Mashreq's wholesale credit policy, all performing commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 – 22. Obligor at the higher risk end rated 21 and 22 are categorised as "Watch". Classified exposures fall into 5 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorised as "Specially Mentioned I" and 25 are categorised as "Specially Mentioned II". All Loans and advances rated from 21 to 25 are considered as Grade 4 – Watch-List as explained in the note below.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non-performing assets.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****43 Risk management (continued)****Credit risk management (continued)*****Loan classification(continued)***

Outside the 25 point scale, there are 4 ratings – Non-Accrual Under Restructuring (NAUR), Sub-standard, Doubtful and Loss, categorised as Non-Performing assets. NAUR rating is assigned to borrowers that are past due by more than 90 days on payment of interest and where negotiation for re-structuring is in progress. Sub-standard loans are assets where the ability to service the debt has been severely impacted and where the principal or interest is past due for over 90 days and there are no immediate prospects of a restructuring. Provisions and loans classification are taken in line with the Central Bank of U.A.E. guidelines and IFRS.

When interest or principal of a credit is overdue for ninety days or more, interest is suspended and is not credited to consolidated statement of profit or loss. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortisation into income of deferred loan fees ceases. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

Any collections on cash basis for non-performing loans are accounted as per policy. Where provisions are held, the amount collected is applied first towards principal, and then to interest. Where provisions are not held, the amount collected is applied first to interest and then to principal.

Impaired loans and securities

Impaired loans and other financial assets are loans and other financial assets for which the Group determines that it will be unable to collect all principal and interest due according to the contractual terms of the loans and other financial assets agreements. These assets are graded Non-Accrual under Restructuring (NAUR), Sub-Standard, Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits. It also includes assets where interest has been suspended or stopped pending conclusion of the re-structuring.

Impairment of retail loans is calculated by applying a formulaic approach as per Central Bank guidelines whereby a provision of 25% of the principal balance is made when it is past due by more than 90 days and less than 120 days a provision of 50% of the principal balance is made when is past due by more than 120 days and less than 180 days. Where such a segregation is not possible as to principal balance, the provisions are taken as aforesaid on the total balance against the facility. Retail loans are written off at a maximum of 181 days past their due date, based on the characteristics of the underlying product. The only exception to this is mortgages, where provisioning is based on Central Bank guidelines. Notwithstanding for certain high risk mortgages, the entire outstanding is fully provided for at 180 days overdue.

Past due but not impaired loans and securities

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual interest or principal payments are past due. Very often these overdues are only for a few days and do not reflect fundamental weaknesses. On this class of asset, the Group believes that specific impairment is not appropriate at the current condition on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

43 Risk management (continued)

Credit risk management (continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for the statistical possibility that some of these loan may get impaired in future.

The Group also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective interest rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available.

Write-off policy

The Group writes off a loan or other financial asset (and any related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Assets are written-off against provisions up to the extent of amount considered un-collectible. However, the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written off accounts.

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Credit risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Islamic financing investments
	31 December 2017 AED'000	31 December 2016 AED'000	31 December 2017 AED'000	31 December 2016 AED'000	31 December 2017 AED'000
Impaired					
Non-Accrual Under Restructuring	-	-	74,429	88,287	124,618
Substandard	-	-	442,600	351,858	88,866
Doubtful	-	-	316,684	868,222	43,330
Loss	-	-	1,111,227	895,269	24,608
Gross amount	-	-	1,944,940	2,203,636	281,422
Interest/profit suspended	-	-	(285,112)	(310,336)	(10,341)
Specific allowance for impairment	-	-	(983,621)	(1,045,147)	(82,086)
	-	-	676,207	848,153	188,995
Past due but not impaired					
Past due by less than 90 days*	-	-	495,326	121,589	17,045
Past due beyond 90 days**	-	-	495,109	29,938	-
Past due retail loans beyond 30 days	-	-	339,631	384,100	36,157
	-	-	1,330,066	535,627	53,202
Neither past due nor impaired					
Gross amount	20,135,427	18,667,750	53,188,364	53,909,731	9,121,970
Collective allowance for impairment	-	-	(1,800,472)	(1,865,505)	(24,700)
	20,135,427	18,667,750	51,387,892	52,044,681	9,097,270
Carrying amount	20,135,427	18,667,750	53,394,165	53,428,461	9,339,467

* During the year ended 31 December 2017, this balance includes exposure of AED 269 million where interest is being serviced and the loan is in the final stage of restructuring.

** During the year ended 31 December 2017, this balance includes an exposure of AED 481 million where interest is being serviced and active restructuring is ongoing.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

43 Risk management (continued)

Credit risk management (continued)

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2017 and 2016 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

Grades	Loans and advances		Islamic financing and investment products	
	31 December 2017 AED'000	31 December 2016 AED'000	31 December 2017 AED'000	31 December 2016 AED'000
Grade 1 – Low risk	3,127,742	3,863,219	460,163	701,448
Grade 2 – Satisfactory risk	40,421,167	36,675,960	7,545,318	5,217,573
Grade 3 – Fair Risk	3,758,253	6,755,585	553,817	366,295
Grade 4 – Watch List	5,881,202	6,614,967	562,672	1,222,457
	53,188,364	53,909,731	9,121,970	7,507,773

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against other financial assets.

The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		Due from banks	
	31 December 2017 AED'000	31 December 2016 AED'000	31 December 2017 AED'000	31 December 2016 AED'000
Against individually impaired loans and advances:				
Property	223,556	197,342	-	-
Equities	-	238,404	-	-
Cash	1,520	1,073	-	-
Others	70,000	98,805	-	-
Against loans and advances not impaired:				
Property	16,284,824	10,323,793	-	-
Equities	1,912,775	1,121,515	-	-
Cash	7,363,648	916,205	397,964	109,069
Others	7,606,705	4,870,659	-	-
Total	33,463,028	17,767,796	397,964	109,069

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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
31 December 2017				
Impaired loans and advances	1,112,013	832,747	180	1,944,940
Impairment allowance for credit losses inclusive of interest in suspense	(722,340)	(546,167)	(226)	(1,268,733)
	<u>389,673</u>	<u>286,580</u>	<u>(46)</u>	<u>676,207</u>
31 December 2016				
Impaired loans and advances	1,294,707	908,762	167	2,203,636
Impairment allowance for credit losses inclusive of interest in suspense	(777,925)	(577,354)	(203)	(1,355,482)
	<u>516,782</u>	<u>331,408</u>	<u>(36)</u>	<u>848,154</u>

The distributions by geographical concentration of impaired Islamic financing and investment products measured at amortised cost and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	Others AED'000	Total AED'000
31 December 2017				
Impaired Islamic financing and investment products	156,805	-	124,617	281,422
Impairment allowance for credit losses inclusive of profit in suspense	(89,937)	-	(2,490)	(92,427)
	<u>66,868</u>	<u>-</u>	<u>122,127</u>	<u>188,995</u>
31 December 2016				
Impaired Islamic financing and investment products	71,054	-	-	71,054
Impairment allowance for credit losses inclusive of profit in suspense	(30,505)	-	-	(30,505)
	<u>40,549</u>	<u>-</u>	<u>-</u>	<u>40,549</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model;

- Business units form the first line of defence. They own the risk and have direct responsibility managing operational risk in their respective areas.
- Group Operational risk team is the second line of defence which provides policy, tools and infrastructure to assist business units in managing their risks; and
- Internal Audit is the third line of defence who provides independent assurance on the effectiveness of the risk management process.

The Board has oversight responsibilities for operational risk management. These responsibilities are exercised through the Risk management committee, which is the senior Management forum responsible for the oversight of Operational Risk.

Regulatory capital requirement for operational risk capital is calculated annually. Mashreq has adopted the Standardized approach in determining its operational risk capital requirements.

Risk identification, monitoring and reporting

Mashreq's Operational risk framework consist of tools that assist in managing and measuring operational risk including:

Risk and control self-assessment (RCSA)

RCSA is the process of identifying, recording and assessing potential risks and related controls. It provides a framework and tools for management to:

- a) Identify and prioritize their business objectives
- b) Assess and manage key risks
- c) Testing the effectiveness of controls, and
- d) Developing action plans

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)****43 Risk management (continued)****Incident management**

The reporting of Operational risk incidents is a critical component of Mashreq's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

Market risk management

Market Risk is the risk that fair value or cash flows of financial instruments held by Mashreq Group or its income may be adversely affected by movement in market factors such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market Risk at Mashreq Bank is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is completely independent of the business. The Market Risk Function reports to the Head of Risk Management.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily addresses risks arising from trading activities. Interest risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities. A comprehensive risk reporting framework is in place where by, the positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management team and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Policy and the concerned trading desk's limits package.

Each trading desk has a Permitted Product List comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from the TCM Product Policy Committee which assesses the risks associated with the product and verifies that they can be controlled effectively prior to approving the product.

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval using Monte Carlo Simulations approach across its trading portfolio and open FX positions. Value at Risk framework is supplemented by other limits and sensitivity triggers.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

In year 2017, VaR was calculated regularly and as of 31 December 2017 the 99% one day VaR was USD 14.61 million (31 December 2016: USD 1.145 million) for the bank wide open market positions (including FX open positions). The Bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets and liabilities are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2017 would have been a decrease in profit by -4.29% (in case of decrease of interest rates) and would have been an increase in profit by +4.41% (in case of increase of interest rates) [31 December 2016: -5.37% and +5.51%] respectively.

During the year ended 31 December 2017, the effective interest rate on due from banks and certificates of deposits with central banks was 1.67% (31 December 2016: 1.56%), on loans and advances measured at amortised cost 5.50% (31 December 2016: 5.52%), on customers' deposits 1.12% (31 December 2016: 1.10%) and on due to banks (including repurchase agreements) 1.27% (31 December 2016: 0.83%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000
31 December 2017					
Assets					
Cash and balances with central banks	5,979,811	-	850,000	-	-
Deposits and balances due from banks	9,786,145	4,851,010	1,043,990	496,482	-
Other financial assets measured at fair value	250,076	174,063	13,588	-	-
Loans and advances measured at amortised cost	40,558,579	3,255,652	1,450,636	3,455,635	4,229,000
Islamic financing and investment products measured at amortised cost	6,925,275	459,234	165,255	688,016	902,000
Other financial assets measured at amortised Cost	5,972,970	4,655,430	348,691	761,945	844,000
Other assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Investment properties	-	-	-	-	-
Property and equipment	-	-	-	-	-
Total assets	69,472,856	13,395,389	3,872,160	5,402,078	5,976,000

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000
31 December 2017					
Liabilities and equity					
Deposits and balances due to banks	6,586,279	771,201	422,950	-	-
Repurchase agreements with banks	557,183	-	-	-	-
Customers' deposits	19,070,225	7,010,104	4,643,802	2,627,821	553,378
Islamic customers' deposits	1,643,086	348,133	1,376,085	262,868	16,700
Insurance and life assurance funds	-	-	-	-	-
Other liabilities	-	-	-	-	-
Medium-term loans	2,736,004	1,473,315	618,267	1,208,066	-
Equity attributable to shareholders of the Parent	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Total liabilities and equity	30,592,777	9,602,753	7,061,104	4,098,755	570,078
On Balance Sheet gap	38,880,079	3,792,636	(3,188,944)	1,303,323	5,405,962
Off Balance Sheet gap	(35)	-	-	-	35
Cumulative interest rate sensitivity gap	38,880,044	42,672,680	39,483,736	40,787,059	46,193,056

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000
31 December 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	2,016,811
Islamic financing and investment products measured at amortised cost	5,766,871	110,857	81,492	679,997	875,000
Other financial assets measured at amortised cost	5,723,391	3,458,384	366,415	919,317	381,000
Other assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Investment properties	-	-	-	-	-
Property and equipment	-	-	-	-	-
Total assets	70,201,790	13,228,579	4,199,350	6,273,680	3,273,811

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000
31 December 2016					
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	724,337
Islamic customers' deposits	2,914,884	392,031	675,219	520,868	21,440
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	-	-	-	-	-
	<u>28,742,043</u>	<u>9,028,803</u>	<u>9,504,930</u>	<u>3,264,963</u>	<u>745,777</u>
Total liabilities and equity	28,742,043	9,028,803	9,504,930	3,264,963	745,777
On Balance Sheet gap	41,459,747	4,199,776	(5,305,580)	3,008,717	2,527,733
Off Balance Sheet gap	(231,044)	225,034	(6,717)	(1,240)	13,960
	<u>41,228,703</u>	<u>45,653,513</u>	<u>40,341,216</u>	<u>43,348,693</u>	<u>45,890,393</u>
Cumulative interest rate sensitivity gap	41,228,703	45,653,513	40,341,216	43,348,693	45,890,393

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored. The Group's exposures on 31 December are as follows:

	31 December 2017			31 December 2016		
	Net spot Position AED'000	Forward position AED'000	Total AED'000	Net spot position AED'000	Forward position AED'000	Total AED'000
U.S. Dollars	9,862,269	(5,852,816)	4,009,453	9,717,274	(7,849,642)	1,867,632
Qatari Riyals	1,999,936	110,505	2,110,441	1,387,794	769,123	2,156,917
Pound Sterling	(692,701)	723,001	30,300	(702,160)	706,186	4,026
Euro	(2,470,578)	1,773,735	(696,843)	(3,122,223)	3,323,364	201,141
Bahrain Dinar	72,490	(10,609)	61,881	153,179	(30,119)	123,060
Saudi Riyal	(1,464,959)	1,460,716	(4,243)	(901,433)	960,864	59,431
Japanese Yen	(694,888)	704,456	9,568	(368,860)	420,037	51,177
Swiss Francs	(207,102)	207,511	409	(124,926)	128,107	3,181
Kuwaiti Dinar	209,277	(161,225)	48,052	67,936	(578)	67,358
Chinese Yuan	(259,001)	260,289	1,288	(230,315)	230,300	(15)
Other	486,075	(7,603)	478,472	(32,888)	81,951	49,063
Total	6,840,818	(792,040)	6,048,778	5,843,378	(1,260,407)	4,582,971

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity Risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III proposals, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

43 Risk management (continued)

Liquidity risk management (continued)

Mashreq's Board of Directors ("BoD") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy. Among Mashreq's Board of Directors, Mr. Abdul Aziz Abdulla Al Ghurair, the Bank's Chief Executive Officer and Director, is chiefly responsible for the oversight of Liquidity management within the Bank.

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. ALCO has a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCO meets on a monthly basis or more often if required to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCO determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions at all locations and for outlining these clearly in the bank's liquidity policies.

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, the Head of Risk Management, the Head of International Banking and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Head of Risk Management, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2017 has an outstanding balance of AED 6.23 billion (31 December 2016: AED 3.14 billion) [Note 20(a)] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014. The Bank raised a US\$ 500 million syndicated loan through its key relationship Banks in July 2014, which was repaid in July 2017.

The Central bank of UAE through its circular no. 33/2015 dated 27 May 2015 announced new Regulations regarding Liquidity at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio ("ELAR") applicable from 1 July, 2015 as well as the intention to start the transition to the Basel III Liquidity standards from 1 January 2016. To monitor and manage liquidity risk, the Group uses various indicators including the regulatory ratios of Advances to Stable Resources ("ASRR") and the recently implemented ELAR. Other indicators include loans and advances to customers' deposits, liquid assets to total assets, deposit concentration risk indicators, and limits for liquidity gaps. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

The Treasury function in the Group is responsible for managing liquidity and it follows strict guidelines for deployment of liquid assets within each maturity bucket. Periodic stress tests are performed to ensure availability of funds during stressed situations.

Inter-bank borrowing lines and repurchase facilities with commercial counterparts and the Central Bank of U.A.E. are part of the contingency funding options maintained by the Treasury.

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. Assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2017 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 12 months AED'000
Assets				
Cash and balances with central banks	16,049,076	-	850,000	
Deposits and balances due from banks	13,046,225	4,584,394	1,755,111	7,911,111
Other financial assets measured at fair value	933,436	104,373	1,204	1,000,000
Loans and advances measured at amortised cost	14,701,615	4,258,583	4,929,216	14,500,000
Islamic financing and investment products measured at amortised cost	4,368,997	495,211	301,278	2,200,000
Other financial assets measured at amortised cost	1,865,093	742,134	593,922	4,900,000
Other assets	4,295,794	2,922,741	2,031,631	1,000,000
Goodwill	-	-	-	-
Investment properties	-	-	-	-
Property and equipment	-	-	-	-
Total assets	55,260,236	13,107,436	10,462,362	22,000,000

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	O A
Liabilities and equity				
Deposits and balances due to banks	8,119,279	771,201	422,950	
Repurchase agreements with banks	557,183	-	-	
Customers' deposits	54,490,765	7,004,193	4,652,383	2,
Islamic customers' deposits	4,676,969	348,132	1,376,205	
Insurance and life assurance funds	-	-	1,078,357	
Other liabilities	5,209,693	2,357,861	2,261,122	
Medium-term loans	2,736,004	1,473,315	808,647	1,
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	75,789,893	11,954,702	10,599,664	4,

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2016 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 12 months AED'000
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	
Other financial assets measured at fair value	1,102,170	137,778	344,910	
Loans and advances measured at amortised cost	20,975,850	2,764,492	4,754,120	14,000,000
Islamic financing and investment products measured at amortised cost	4,807,405	157,060	100,765	1,000,000
Other financial assets measured at amortised cost	2,014,790	652,523	549,978	4,000,000
Other assets	3,125,001	2,861,642	2,800,294	
Goodwill	-	-	-	
Investment properties	-	-	-	
Property and equipment	-	-	-	
Total assets	60,939,512	12,214,091	10,861,218	21,000,000

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	C 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,

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 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 consolidated financial statements for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31 December 2017 AED'000	31 December 2016 AED'000		
Financial assets measured at FVTPL				
Quoted debt investments	119,098	369,195	Level 1	Quoted bid prices in an active market
Quoted equity investments	3,548	2,150	Level 1	Quoted bid prices in an active market
Mutual and other funds	197,358	262,351	Level 1	Quoted bid prices in an active market
Unquoted debt investments	258,793	680,364	Level 2	Based on the recent similar transaction in market
Unquoted debt investments	59,836	63,837	Level 3	Based on discounted cash flow model
Mutual and other funds	315,349	274,558	Level 3	Net assets values of the funds
Unquoted equity investments	222	215	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.
	954,204	1,650,520		

MASHREQBANK PSC GROUP

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

43. Risk management (continued)

Fair value measurements (continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	31 December 2017 AED'000	31 December 2016 AED'000			
Financial assets measured at FVTOCI					
Quoted equity investments	355,543	384,214	Level 1	Quoted bid prices in an active market	N/A
Unquoted equity investments	259,886	348,294	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	N/A
Mutual and Other funds	10,912	36,171	Level 1	Quoted bid prices in an active market	N/A
	<u>626,341</u>	<u>768,679</u>			
	<u>1,580,545</u>	<u>2,419,199</u>			

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTPL

	31 December 2017 AED'000	31 December 2016 AED'000
At 1 January	338,610	395,834
Purchases	129,617	97,250
Disposals/matured	(134,038)	(158,298)
Change in fair value	41,218	3,824
At 31 December	375,407	338,610

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI

	31 December 2017 AED'000	31 December 2016 AED'000
At 1 January	348,294	216,650
Purchases	-	106,165
Disposals/matured	(153,675)	(16,643)
Change in fair value	65,267	42,122
At 31 December	259,886	348,294

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

43. Risk management (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount AED'000	Fair value			
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2017					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	12,583,404	9,126,707	1,432,660	2,020,566	12,579,933

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	Fair value			
	Amount	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017					
<i>Financial liabilities</i>					
Medium-term notes	6,226,032	4,904,034	-	1,314,700	6,218,734

Financial liabilities

Medium-term notes

3,135,360	1,786,183	-	1,340,883	3,127,066

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 2017 and 31 December 2016:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2017				
Other financial assets measured at fair value	95,420	(95,420)	62,634	(62,634)
31 December 2016				
Other financial assets measured at fair value	165,052	(165,052)	76,868	(76,868)

Majority of the derivatives financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements.

45 Fund management

Makaseb Funds Company BSC and Mashreq Capital (DIFC) Limited (Note 36) manage a number of funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

46 Foreign restricted assets

Net assets equivalent to AED 113 million as at 31 December 2017 (31 December 2016: AED 98 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

47 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 were approved by the Board of Directors and authorised for issue on 28 January 2018.

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