

MASHREQBANK PSC GROUP

**Report and consolidated financial statements
for the year ended 31 December 2016**

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 2016

Contents	Pages
Independent auditor's report	1 - 9
Consolidated statement of financial position	10
Consolidated income statement	11
Consolidated statement of comprehensive income	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14 - 15
Notes to the consolidated financial statements	16 - 118

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Mashreqbank psc (the “Bank”) and its subsidiaries (together the “Group”), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Mashreqbank psc and its subsidiaries, as at 31 December 2016, and its consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

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

Key Audit Matters

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

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 2016, the total of gross loans and advances and Islamic finance was AED 64 billion (2015: AED 63 billion) against which allowance for impairment provisions of AED 3.3 billion were recorded (2015: AED 2.8 billion). Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. 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 • 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>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>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> 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 matter
<i>Valuation of financial instruments including derivatives</i>	
The fair value of financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by management and the use of assumptions and estimates. Due to the significance of financial instruments (financial instruments measured at fair value represent 3% of total assets) and the related estimation uncertainty, this is considered a key audit risk. Fair values are generally obtained by reference to quoted market prices, third party quotes, discounted cash flow models and recognised pricing models as appropriate.	Our audit procedures included the assessment of controls over the identification, measurement and management of valuation risk, and evaluating the methodologies, inputs and assumptions used by the Group in determining fair values. For the Group's fair value models, we assessed the appropriateness of the models and inputs. We compared observable inputs against independent sources and externally available market data. For a sample of instruments with the assistance of our own valuation specialists, we critically assessed the assumptions and models used, by reference to what we considered to be available alternative methods and sensitivities to key factors. We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to the key assumptions.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matters
Valuation of Insurance contract liabilities	
As at 31 December 2016, net insurance contract liabilities amounted to AED 1.5 billion, as detailed in note 18 to these consolidated financial statements. 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 Bank's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The incorporated key controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We also tested the accuracy and completeness of key computer generated reports heavily used in our testing such as aging report of overdue loans and advances. In events deficiencies are noted during our testing affecting applications and databases, we performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. In addition and where appropriate, we extended the scope of our substantive audit procedures.

INDEPENDENT AUDITOR'S REPORT (continued)**Other information**

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

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

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

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

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

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

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

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

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

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

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 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2016;
- vi) Note 37 to the consolidated financial statements of the Group discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- viii) Note 31 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2016.

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



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25 January 2017

**Consolidated statement of financial position
at 31 December 2016**

		2016		2015	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	18,629,582	5,072,034	19,423,463	5,288,174
Deposits and balances due from banks	6	18,667,750	5,082,426	15,009,990	4,086,575
Other financial assets measured at fair value	7	2,419,199	658,644	3,924,965	1,068,599
Loans and advances measured at amortised cost	8	53,428,461	14,546,273	53,555,070	14,580,743
Islamic financing and investment products measured at amortised cost	9	7,565,063	2,059,641	6,610,606	1,799,784
Other financial assets measured at amortised cost	7	10,849,298	2,953,797	7,993,072	2,176,170
Other assets	10	9,552,316	2,600,685	6,928,970	1,886,461
Goodwill	11	15,365	4,183	18,150	4,940
Investment properties	12	520,864	141,809	527,525	143,622
Property and equipment	13	1,165,638	317,353	1,165,370	317,280
Total assets		122,813,536	33,436,845	115,157,181	31,352,348
LIABILITIES AND EQUITY					
Liabilities					
Deposits and balances due to banks	14	8,932,076	2,431,820	9,231,913	2,513,453
Repurchase agreements with banks	15	605,600	164,879	734,564	199,990
Customers' deposits	16	69,947,124	19,043,595	65,243,790	17,763,079
Islamic customers' deposits	17	7,093,383	1,931,223	8,391,490	2,284,642
Insurance and life assurance funds	18	1,510,758	411,314	1,559,704	424,640
Other liabilities	19	10,267,090	2,795,287	7,404,136	2,015,828
Medium-term loans	20	4,971,860	1,353,624	4,105,856	1,117,848
Total liabilities		103,327,891	28,131,742	96,671,453	26,319,480
Equity					
Capital and reserves					
Issued and paid up capital	21(a)	1,775,308	483,340	1,775,308	483,340
Statutory and legal reserves	21(b)	899,351	244,855	896,595	244,104
General reserve	21(c)	312,000	84,944	312,000	84,944
Cumulative translation adjustment	21(d)	(298,562)	(81,286)	(60,610)	(16,501)
Investments revaluation reserve	21(e)	(248,283)	(67,597)	(276,416)	(75,256)
Cash flow hedging reserve	21(f)	7,624	2,076	9,221	2,510
Retained earnings		16,310,198	4,440,566	15,112,512	4,114,487
Equity attributable to owners of the Parent		18,757,636	5,106,898	17,768,610	4,837,628
Non-controlling interests	22	728,009	198,205	717,118	195,240
Total equity		19,485,645	5,305,103	18,485,728	5,032,868
Total liabilities and equity		122,813,536	33,436,845	115,157,181	31,352,348

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


Abdulla Bin Ahmad Al Ghurair
 Chairman


Abdul Aziz Abdulla Al Ghurair
 Chief Executive Officer

**Consolidated income statement
for the year ended 31 December 2016**

	Notes	2016		2015	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	4,466,079	1,215,921	4,101,946	1,116,784
Income from Islamic financing and investment products	25	347,555	94,624	258,293	70,322
Total interest income and income from Islamic financing and investment products		4,813,634	1,310,545	4,360,239	1,187,106
Interest expense	26	(1,345,530)	(366,330)	(1,033,192)	(281,294)
Distribution to depositors – Islamic products	27	(105,737)	(28,788)	(65,258)	(17,767)
Net interest income and income from Islamic products net of distribution to depositors		3,362,367	915,427	3,261,789	888,045
Fee and commission income	28	3,049,142	830,150	3,024,587	823,465
Fee and commission expenses	28	(1,364,469)	(371,486)	(1,300,179)	(353,983)
Net fee and commission income		1,684,673	458,664	1,724,408	469,482
Net investment income	29	262,517	71,472	169,106	46,040
Other income, net	30	859,068	233,887	822,202	223,850
Operating income		6,168,625	1,679,450	5,977,505	1,627,417
General and administrative expenses	31	(2,406,701)	(655,241)	(2,472,527)	(673,163)
Allowances for impairment, net	32	(1,733,659)	(472,001)	(999,805)	(272,204)
Profit before taxes		2,028,265	552,208	2,505,173	682,050
Overseas income tax expense		(74,354)	(20,243)	(70,528)	(19,202)
Profit for the year		1,953,911	531,965	2,434,645	662,848
Attributed to:					
Owners of the Parent		1,926,412	524,479	2,402,107	653,990
Non-controlling interests		27,499	7,486	32,538	8,858
		1,953,911	531,965	2,434,645	662,848
Earnings per share	33	AED 10.85	USD 2.95	AED 13.53	USD 3.68

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2016**

	2016		2015	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	1,953,911	531,965	2,434,645	662,848
Other comprehensive income/(loss)				
<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)]	12,330	3,357	(178,066)	(48,480)
<i>Items that will be reclassified subsequently to profit or loss:</i>				
Exchange difference arising on translating the foreign operations	(236,665)	(64,434)	(743)	(202)
Loss on hedging instruments designated in hedges of the net assets of foreign operations	(1,287)	(350)	(6,552)	(1,784)
Cash flow hedges - fair value (loss)/gain arising during the year [Note 21(f)]	(1,597)	(435)	9,221	2,510
Total other comprehensive loss for the year	(227,219)	(61,862)	(176,140)	(47,956)
Total comprehensive income for the year	1,726,692	470,103	2,258,505	614,892
Attributed to:				
Owners of the Parent	1,699,146	462,604	2,282,036	621,299
Non-controlling interests	27,546	7,499	(23,531)	(6,407)
	1,726,692	470,103	2,258,505	614,892

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

**Consolidated statement of changes in equity
for the year ended 31 December 2016**

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Cash flow hedging reserve AED'000	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 2015	1,690,770	852,582	312,000	(53,315)	(152,150)	-	13,512,995	16,162,882	755,668	16,918,550
Profit for the year	-	-	-	-	-	-	2,402,107	2,402,107	32,538	2,434,645
Other comprehensive income/(loss) for the year	-	-	-	(7,295)	(121,997)	9,221	-	(120,071)	(56,069)	(176,140)
Total comprehensive income/(loss) for the year	-	-	-	(7,295)	(121,997)	9,221	2,402,107	2,282,036	(23,531)	2,258,505
Issue of bonus shares [Note 21(a)]	84,538	-	-	-	-	-	(84,538)	-	-	-
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	(2,269)	-	2,269	-	-	-
Transfer to statutory and legal reserves	-	44,013	-	-	-	-	(44,013)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(676,308)	(676,308)	(18,129)	(694,437)
Additional contribution attributable to the new non-controlling interest shareholders (Note 22)	-	-	-	-	-	-	-	-	3,110	3,110
Balance at 31 December 2015	1,775,308	896,595	312,000	(60,610)	(276,416)	9,221	15,112,512	17,768,610	717,118	18,485,728
Profit for the year	-	-	-	-	-	-	1,926,412	1,926,412	27,499	1,953,911
Other comprehensive income/(loss) for the year	-	-	-	(237,952)	12,283	(1,597)	-	(227,266)	47	(227,219)
Total comprehensive income/(loss) for the year	-	-	-	(237,952)	12,283	(1,597)	1,926,412	1,699,146	27,546	1,726,692
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	15,850	-	(15,850)	-	-	-
Transfer to statutory and legal reserves	-	2,756	-	-	-	-	(2,756)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,120)	(710,120)	(16,655)	(726,775)
Balance at 31 December 2016	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,310,198	18,757,636	728,009	19,485,645

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

**Consolidated statement of cash flows
for the year ended 31 December 2016**

	Notes	2016		2015	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		2,028,265	552,208	2,505,173	682,051
Adjustments for:					
Depreciation of property and equipment	13	155,611	42,366	148,637	40,467
Allowances for impairment, net	32	1,733,659	472,001	999,805	272,204
(Gain)/loss on disposal of property and equipment	30	(53,837)	(14,658)	4,959	1,350
Reversal of impairment on property and equipment	13	(35,171)	(9,576)		
Loss from disposal of investment properties	30	250	69	-	-
Fair value adjustments of other financial assets measured at FVTPL	29	(6,310)	(1,718)	41,291	11,242
Fair value adjustments of investment properties	30	2,161	588	(34,196)	(9,310)
Net realised gain from sale of other financial assets measured at FVTPL	29	(24,029)	(6,542)	(33,305)	(9,068)
Dividend income from financial assets measured at FVTOCI	29	(26,878)	(7,318)	(26,088)	(7,103)
Net realised loss from sale of other financial assets measured at amortised cost	29	490	133	10,345	2,816
Fair value adjustment – derivatives	30	(6,954)	(1,893)	(7,070)	(1,925)
Operating cash flows before changes in operating assets and liabilities		3,767,257	1,025,660	3,609,551	982,724
Increase in deposits with central banks		(430,654)	(117,249)	(1,674,668)	(455,940)
Increase in deposits and balances due from banks maturing after three months		(1,997,519)	(543,839)	(3,333)	(907)
Increase in loans and advances measured at amortised cost		(1,512,319)	(411,739)	(2,282,576)	(621,447)
Increase in Islamic financing and investment products measured at amortised cost		(1,011,571)	(275,407)	(832,666)	(226,699)
Increase in other assets		(2,651,224)	(721,814)	(939,587)	(255,809)
Increase/(decrease) in other financial assets carried at FVTPL		210,633	57,347	(856,247)	(233,119)
(Decrease)/increase in repurchase agreements with banks		(128,964)	(35,111)	111,528	30,364
Increase in customers' deposits		4,703,334	1,280,516	1,938,413	527,747
(Decrease)/increase in Islamic customers' deposits		(1,298,107)	(353,419)	3,208,724	873,598
Increase in medium-term loans (not qualified as Tier 2 capital)		866,004	235,776	97,613	26,576
Increase in deposits and balances due to banks		(299,837)	(81,633)	1,007,380	274,266
Decrease in insurance and life assurance funds		(48,946)	(13,326)	(95,435)	(25,983)
Increase in other liabilities		2,862,954	779,459	1,481,502	403,349
Overseas tax paid		(74,354)	(20,243)	(70,528)	(19,202)
Net cash generated from operating activities		2,956,687	804,978	4,699,671	1,279,518

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

**Consolidated statement of cash flows
for the year ended 31 December 2016 (continued)**

		2016		2015	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	(136,063)	(37,043)	(231,119)	(62,924)
Proceeds from sale of property and equipment		69,192	18,838	18,273	4,975
Proceeds from sale of investment properties		4,250	1,157	(3,012)	(820)
Net increase in other financial assets measured at amortised cost		(1,419,720)	(386,529)	(389,865)	(106,143)
Net increase in other financial assets measured at FVTOCI		(99,194)	(27,006)	(45,436)	(12,370)
Dividend income from other financial assets measured at FVTOCI	29	26,878	7,318	26,088	7,103
Net cash used in investing activities		(1,554,657)	(423,265)	(625,071)	(170,179)
Cash flows from financing activities					
Dividend paid		(726,775)	(197,870)	(694,437)	(189,064)
Additional contribution by non-controlling interest	22	-	-	3,110	847
Net cash used in financing activities		(726,775)	(197,870)	(691,327)	(188,217)
Net increase in cash and cash equivalents		675,255	183,843	3,383,273	921,121
Net foreign exchange difference		(239,549)	(65,219)	1,926	524
Cash and cash equivalents at 1 January		19,877,731	5,411,852	16,492,532	4,490,207
Cash and cash equivalents at 31 December	35	20,313,437	5,530,476	19,877,731	5,411,852

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016****1 General information**

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

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

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”)**2.1 New and revised IFRS applied with no material effect on the consolidated financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 12 relating to recognition of <i>Deferred Tax Assets for Unrealised Losses</i>.	1 January 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
- Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. ➤ 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.	1 January 2018

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 2016 (continued)**

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: ➤ there is consideration that is denominated or priced in a foreign currency; ➤ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ➤ the prepayment asset or deferred income liability is non-monetary.	1 January 2018
• IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
• Amendments to IAS 40 <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
• IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
• Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group’s consolidated financial statements in respect of Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. requirements as related to the impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015 (as amended). The Bank has twenty four months from the effective date of the Companies Law to comply with its provisions (the "transitional provisions") and the Bank has availed the transitional provisions.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

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

The principal accounting policies are set out below:

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights 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 ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial 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 2016 (continued)****3 Summary of significant accounting policies (continued)****3.5 Goodwill**

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.4 above) less accumulated impairment losses if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

On disposal of the relevant cash-generating unit, the 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 income statement using the effective interest method. Interest income from other financial assets measured at FVTPL is recognised within 'net investment income' in the consolidated income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Recoveries in respect of loans and advances previously provided for are accounted for on a cash receipt basis.

Income from Islamic financing and investments products

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

Fee and commission income and expenses

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

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

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

Dividend revenue

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

Insurance contracts revenue and insurance commission income

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

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

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

Gain or loss from redemption of medium-term loans

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

Rental income

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

Rendering of services

Consultancy and project services revenue represents the total amount of services rendered and work completed and invoiced, net of discount.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****3 Summary of significant accounting policies (continued)****3.7 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.7.1 The Group as lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.7.2 The Group as lessee

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8 Foreign currencies

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

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

Exchange differences are recognised in the consolidated income statement in the period in which they arise except for:

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

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

On the disposal of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank is reclassified to the consolidated income statement.

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.9 Borrowing costs

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

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

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

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****3 Summary of significant accounting policies (continued)****3.10 Property and equipment (continued)**

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

3.11 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the period in which they arise.

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

3.12 Impairment of tangible assets

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

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

3.14.1 Financial assets

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

Classification of financial assets

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Classification of financial assets (continued)

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

- (a) the entity's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Financial assets at fair value through other comprehensive income (FVTOCI) (continued)

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)

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

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. 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.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 43 to the consolidated financial statements.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IFRS and is included in the net gain or loss described above.

Reclassification

Reclassification of financial assets

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Reclassification (continued)

Reclassification from FVTPL to Amortised Cost

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments (other than those financial assets designated as FVTPL) and are measured subsequently at amortised cost. Interest income is recognised in the consolidated income statement.

Foreign exchange gains and losses

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

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated income statement; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in consolidated statement of comprehensive income.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

(i) *Individually assessed loans*

These represent mainly corporate loans which are assessed individually by the Group's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loans carrying value and its present value calculated as above.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Impairment of financial assets (continued)

(ii) *Collectively assessed loans*

Impairment losses of collectively assessed loans include the allowances on:

(a) *Performing commercial and other loans*

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

(b) *Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant*

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and less than 120 days and a provision of 50% of loan balance is made when it is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral held.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

3.14.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

Financial liabilities at FVTPL

Financial liabilities are classified as 'at FVTPL' when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred for the purpose of repurchasing in the near term; or
- on initial recognition it is part of the portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit making; or
- it is a derivative that is not designated and effective as a hedging instrument

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of assets or financial liability or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on the remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

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

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

Embedded derivatives

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Hedges of net investments in foreign operations

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

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

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract,
 - (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
 - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.5 Reinsurance contracts

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

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

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

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

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(b) Additional reserve (continued)

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

(c) Life assurance fund

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

(d) Unit linked liabilities

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

(e) Outstanding claims

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

3.18.7 Policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new insurance contracts and renewing existing insurance contracts are recognised as expenses when incurred.

Acquisition costs incurred in securing long-term investments contracts are deferred and amortised over a period of four years.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.8 Salvage and subrogation reimbursements

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

3.18.9 Liability adequacy test

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

3.18.10 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, insurance contract holders and reinsurance companies.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated income statement.

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Ijara

An agreement whereby the Group acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property concluding with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Group and a customer whereby the Group provides a certain amount of funds, which the customer then invests in a specific enterprise or activity against a specific share in the profit. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Accounting policy

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

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

Ijara

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

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

Mudaraba

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

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****4 Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

4.1 Impairment of financial assets measured at amortised cost

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Individually assessed loans and advances

Impairment losses for individually assessed loans and advances are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

- The customer's aggregate borrowings.
- The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
- The value of the collateral and the probability of successful repossession.
- The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****4 Critical accounting judgements and key sources of estimation uncertainty (continued)****4.1 Impairment of financial assets measured at amortised cost (continued)****Collectively assessed loans and advances**

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the UAE.

Collectively assessed allowances are also made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and less than 120 days, and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral.

4.2 Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4.4 Derivative financial instruments

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

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

4.4 Derivative financial instruments (continued)

- (a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (b) An appropriate discount rate of the instrument. Management determines this rate by observing market pricing data. When valuing instruments by reference to comparable instruments, management takes into account the maturity and structure with which the position held is being compared.

4.5 Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

4.6 The ultimate liability arising from claims made under insurance contracts

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

4.7 Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

4.8 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks as at 31 December is as follows:

	2016 AED'000	2015 AED'000
Cash on hand	1,049,505	845,591
Balances with central banks:		
Current accounts and other balances	6,774,795	8,203,244
Statutory deposits	6,905,282	6,674,628
Certificates of deposit	3,900,000	3,700,000
	18,629,582	19,423,463
	18,629,582	19,423,463

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

	2016 AED'000	2015 AED'000
Balances within the U.A.E.	12,048,216	10,876,322
Balances outside the U.A.E.	6,581,366	8,547,141
	18,629,582	19,423,463
	18,629,582	19,423,463

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.74% (2015: 0.40%) per annum.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2016 AED'000	2015 AED'000
Demand	1,418,631	2,011,629
Overnight	55,000	192,997
Time	17,194,119	12,805,486
	18,667,750	15,010,112
Less: Allowance for impairment	-	(122)
	18,667,750	15,009,990

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

	2016 AED'000	2015 AED'000
Banks within the U.A.E.	3,454,654	1,451,658
Banks outside the U.A.E.	15,213,096	13,558,454
	18,667,750	15,010,112
Less: Allowance for impairment	-	(122)
	18,667,750	15,009,990

(c) Allowance for impairment movement

	2016 AED'000	2015 AED'000
At 1 January	122	24,444
Charged during the year (Note 32)	-	261
(Reversal of)/Interest in suspense	(122)	1,790
Written off during the year	-	(26,373)
At 31 December	-	122

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

7 Other financial assets

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

	2016 AED'000	2015 AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit and loss (FVTPL)		
<i>Debt securities</i>		
Corporate bonds and treasury bills	1,008,996	2,624,985
Sukuk	104,400	36,027
	1,113,396	2,661,012
<i>Equities</i>		
Quoted	-	16,548
Unquoted	215	508
	215	17,056
Mutual and other funds	536,909	589,742
	1,650,520	3,267,810
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
<i>Equities</i>		
Quoted	384,214	402,783
Unquoted	348,294	216,650
	732,508	619,433
Mutual and other funds [Note 7(g)]	36,171	37,722
	768,679	657,155
Total other financial assets measured at fair value (A)	2,419,199	3,924,965
(iii) Financial assets measured at amortised cost		
<i>Debt securities</i>		
Bonds	10,014,326	7,141,930
Sukuk	946,970	963,140
Less: Allowance for impairment	(111,998)	(111,998)
	10,849,298	7,993,072
Total other financial assets measured at amortised cost (B)	10,849,298	7,993,072
Total other financial assets [(A) +(B)]	13,268,497	11,918,037

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

7 Other financial assets (continued)

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

	2016 AED'000	2015 AED'000
Balances within the U.A.E.	3,494,333	3,338,488
Balances outside the U.A.E.	9,774,164	8,579,549
	13,268,497	11,918,037

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

	2016 AED'000	2015 AED'000
Government and Public Sector	5,935,271	5,323,051
Commercial and Business	1,582,603	750,371
Financial Institutions	5,471,961	5,039,235
Other	278,662	805,380
	13,268,497	11,918,037

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

	2016 AED'000	2015 AED'000
At 1 January	111,998	145,850
Reversal during the year (Note 32)	-	(33,852)
	111,998	111,998

(e) The fair value of other financial assets measured at amortised cost amounted to AED 10.76 billion as of 31 December 2016 (2015: AED 7.92 billion) (Note 43).

(f) The other financial assets measured at amortised costs include debt securities aggregating to notional value of AED 623 million (fair value of AED 634 million) [2015: AED 750 million (fair value of AED 766 million)] which were collateralised against repurchase agreements with banks ("Repo") (Note 15).

(g) Other financial assets measured at FVTOCI include AED 36 million (2015: AED 38 million) investment in Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and the fair value of the fund is based on quoted market prices.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

7 Other financial assets (continued)

- (h) Other financial assets measured at FVTPL include AED 225 million (2015: AED 245 million) which represents investments in Makaseb Income Fund, Mashreq Al Islami Income Fund and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity and coupon rate. The fair value of these investments is based on quoted market prices.
- (i) As of 31 December 2016, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.
- (j) During the year ended 31 December 2016, dividends received from financial assets measured at FVTOCI amounting to AED 27 million (2015: AED 26 million) were recognised as investment income in the consolidated income statement (Note 29).
- (k) During the year ended 31 December 2016, change in fair value of other financial assets measured at FVTPL amounted to a profit of AED 6 million (2015: a loss of AED 41 million) and was recognised as investment income in the consolidated income statement (Note 29).
- (l) During the year ended 31 December 2016, change in fair value of financial assets measured at FVTOCI amounted to a profit of AED 12 million (2015: a loss of AED 178 million) and was recognised in the consolidated statement of comprehensive income.
- (m) During the year ended 31 December 2016, the Group purchased and disposed equity shares amounted to AED 250 million (2015: 206 million) and AED 174 million (2015: 150 million) respectively.
- (n) Other financial assets measured at amortised cost include AED 1.4 billion (2015: Nil) which represent investments reclassified from investments previously measured at FVTPL. Due to this reclassification, the net profit for the year ended 31 December 2016 has increased by AED 3.4 million (2015: Nil).

8 Loans and advances measured at amortised cost

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

	2016 AED'000	2015 AED'000
Loans	48,720,940	48,201,075
Overdrafts	4,684,243	4,563,342
Credit cards	2,784,011	3,167,485
Other	459,800	389,337
	<u>56,648,994</u>	<u>56,321,239</u>
Less: Allowance for impairment	(3,220,533)	(2,766,169)
	<u>53,428,461</u>	<u>53,555,070</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

8 Loans and advances measured at amortised cost (continued)

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

	2016 AED'000	2015 AED'000
Manufacturing	3,864,320	3,902,432
Construction	5,503,953	3,849,313
Trade	9,010,501	11,102,269
Transport and communication	3,844,615	4,282,487
Services	5,698,416	4,820,698
Financial institutions	1,824,699	660,483
Personal	16,581,261	16,604,872
Government and related enterprises	10,304,888	10,807,900
Other	16,341	290,785
	<u>56,648,994</u>	<u>56,321,239</u>
Less: Allowance for impairment	(3,220,533)	(2,766,169)
	<u>53,428,461</u>	<u>53,555,070</u>

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated income statement. The value of loans and advances on which interest is not taken to consolidated income statement, including fully provided accounts, amounted to AED 2.20 billion at 31 December 2016 (2015: AED 1.95 billion) (Note 43).

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

	2016 AED'000	2015 AED'000
At 1 January	2,766,169	3,136,593
Impairment allowance for the year (Note 32)	903,225	789,214
Interest suspended	117,174	84,835
Exchange and other adjustments	(46,986)	(4,440)
Recoveries during the year (Note 32)	(3,900)	(5,215)
Written off during the year	(515,149)	(1,234,818)
	<u>3,220,533</u>	<u>2,766,169</u>
At 31 December	<u>3,220,533</u>	<u>2,766,169</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

8 Loans and advances measured at amortised cost (continued)

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

9 Islamic financing and investment products measured at amortised cost

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

	2016 AED'000	2015 AED'000
<u>Financing</u>		
Murabaha	3,694,743	3,907,356
Ijara	3,122,514	1,672,605
	6,817,257	5,579,961
<u>Investment</u>		
Mudaraba	232,355	182,813
Wakala	728,496	1,112,519
	960,851	1,295,332
Total	7,778,108	6,875,293
Less: Unearned income	(157,800)	(216,056)
Allowance for impairment	(55,245)	(48,631)
	7,565,063	6,610,606

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

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

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

	2016 AED'000	2015 AED'000
Manufacturing	605,964	692,410
Construction	1,988,459	1,263,384
Trade	799,626	1,229,460
Transport and communication	323,846	778,105
Services	1,835,386	840,012
Financial institutions	278,256	23,576
Personal	1,783,541	1,607,374
Government and related enterprises	163,030	440,972
Total	7,778,108	6,875,293
Less: Unearned income	(157,800)	(216,056)
Allowance for impairment	(55,245)	(48,631)
	7,565,063	6,610,606

- (c) The value of Islamic financing and investment products on which profit is not taken to consolidated income statement, including fully provided accounts, amounted to AED 71 million as at 31 December 2016 (2015: AED 62 million) (Note 43).

- (d) *Allowance for impairment movement:*

	2016 AED'000	2015 AED'000
At 1 January	48,631	48,014
Impairment allowance/(reversal of impairment) during the year, net (Note 32)	19,775	(382)
(Reversal of)/profit in suspense	(145)	999
Written off during the year	(13,016)	-
At 31 December	55,245	48,631

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

10 Other assets

	2016 AED'000	2015 AED'000
Interest receivable	237,529	184,702
Property acquired in settlement of debts*	114,498	218,722
Prepayments	93,349	109,906
Acceptances**	5,831,534	3,499,817
Positive fair value of derivatives (Note 41)	863,918	879,233
Insurance related receivables	1,728,520	1,351,272
Credit card interchange receivables	94,405	84,718
Taxes paid in advance	60,309	74,007
Other	528,254	526,593
	9,552,316	6,928,970

* As of 31 December 2016, property acquired in settlement of debts includes land with a net carrying amount of AED 113 million (2015: AED 215 million). The land is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

** Acceptances are recognised as a financial liability (Note 19) in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

11 Goodwill

During 2012, Oman Insurance Company P.S.C, a subsidiary of the Bank acquired a 51% interest in Dubai Group Sigorta A.Ş, a company established and registered in Istanbul, Turkey, which is engaged in the business of issuing short term and long term insurance contracts relating to general insurance. Dubai Group Sigorta A.Ş. was acquired by the Group with the objective of improving its overall geographical spread.

The Group's effective proportion of ownership interest in this subsidiary is 32.61% (2015: 32.61%).

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

12 Investment properties

	2016 AED'000	2015 AED'000
<i>At fair value</i>		
At 1 January	527,525	490,317
Purchases during the year	-	3,012
Change in fair value during the year (Note 30)	(2,161)	34,196
Disposals during the year	(4,500)	-
At 31 December	520,864	527,525

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

The fair value of investment properties as at 31 December 2016 has been arrived at on the basis of a valuation carried out by independent professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

There has been no change to the valuation technique during the year.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

13 Property and equipment

Cost	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and other AED'000	Capital work-in- progress AED'000	Total AED'000
At 1 January 2015	1,048,743	480,645	440,084	37,789	2,007,261
Additions during the year	30,889	93,804	93,992	12,434	231,119
Transfers	-	6,782	-	(6,782)	-
Disposals/write-offs	(723)	(80,684)	(49,642)	-	(131,049)
At 31 December 2015	1,078,909	500,547	484,434	43,441	2,107,331
Additions during the year	5,336	39,981	77,415	13,331	136,063
Reversal of impairment	35,171	-	-	-	35,171
Transfers	-	18,936	-	(18,936)	-
Disposals/write-offs	(10,660)	(56,691)	(54,538)	-	(121,889)
At 31 December 2016	1,108,756	502,773	507,311	37,836	2,156,676
Accumulated depreciation and impairment					
At 1 January 2015	378,441	322,076	200,624	-	901,141
Charge for the year (Note 31)	18,615	62,232	67,790	-	148,637
Eliminated on disposals/write-offs	(240)	(73,261)	(34,316)	-	(107,817)
At 31 December 2015	396,816	311,047	234,098	-	941,961
Charge for the year (Note 31)	19,854	63,154	72,603	-	155,611
Eliminated on disposals/write-offs	(2,645)	(54,713)	(49,176)	-	(106,534)
At 31 December 2016	414,025	319,488	257,525	-	991,038
Carrying amount					
At 31 December 2016	694,731	183,285	249,786	37,836	1,165,638
At 31 December 2015	682,093	189,500	250,336	43,441	1,165,370

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

14 Deposits and balances due to banks

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

	2016 AED'000	2015 AED'000
Time	5,743,217	4,086,745
Demand	1,538,551	2,262,741
Overnight	1,650,308	2,882,427
	<u>8,932,076</u>	<u>9,231,913</u>

(b) The above represent borrowings from:

	2016 AED'000	2015 AED'000
Banks within the U.A.E.	1,734,671	2,848,821
Banks outside the U.A.E.	7,197,405	6,383,092
	<u>8,932,076</u>	<u>9,231,913</u>

15 Repurchase agreements with banks

Repricing	Maturity date	Interest rate	2016 AED'000	2015 AED'000
6 months	May 2016	0.94% per annum	-	734,564
1 month	January 2017	1.43% per annum	35,028	-
3 months	March 2017	1.43% per annum	468,400	-
3 months	March 2017	1.53% per annum	102,172	-
			<u>605,600</u>	<u>734,564</u>

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

16 Customers' deposits

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

	2016 AED'000	2015 AED'000
Current and other accounts	41,053,475	38,839,043
Saving accounts	3,406,698	3,555,435
Time deposits	25,486,951	22,849,312
	69,947,124	65,243,790

(b) Analysis by industry sector:

	2016 AED'000	2015 AED'000
Government and public sector	4,915,852	4,959,337
Commercial and business	46,572,635	43,440,872
Personal	14,774,919	14,397,197
Financial institutions	3,553,712	2,024,684
Other	130,006	421,700
	69,947,124	65,243,790

17 Islamic customers' deposits

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

	2016 AED'000	2015 AED'000
Current and other accounts	3,784,930	2,845,304
Saving accounts	124,373	172,525
Time deposits	3,184,080	5,373,661
	7,093,383	8,391,490

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

	2016 AED'000	2015 AED'000
Government and public sector	833,475	2,587,933
Commercial and business	3,177,647	2,987,231
Personal	626,409	696,499
Financial institutions	2,455,852	2,119,827
	7,093,383	8,391,490

18 Insurance and life assurance funds

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	Insurance related other fund AED'000	Total AED'000
At 1 January 2015	427,365	607,983	73,512	546,279	-	1,655,139
Increase/(decrease)	(29,772)	(118,486)	75,570	(22,747)	-	(95,435)
At 31 December 2015	397,593	489,497	149,082	523,532	-	1,559,704
Increase/(decrease)	(21,528)	30,075	(34,153)	(32,843)	9,503	(48,946)
At 31 December 2016	376,065	519,572	114,929	490,689	9,503	1,510,758

Unearned premium reserve is calculated on time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for all assurance business.

Life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

19 Other liabilities

	2016 AED'000	2015 AED'000
Interest payable	320,903	231,871
Negative fair value of derivatives (Note 41)	872,229	872,607
Acceptances*	5,831,534	3,499,817
Insurance premium collected in advance	928,873	540,781
Accrued expenses	536,747	598,805
Income received in advance	190,342	200,935
Pay orders issued	374,654	295,519
Provision for employees' end of service indemnity**	189,946	193,997
Provision for taxation	87,935	87,326
Other	933,927	882,478
	10,267,090	7,404,136

* Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset (Note 10).

** Provision for employees' end of service indemnity included AED 176 million (2015: AED 181 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

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

20 Medium-term loans

	2016 AED'000	2015 AED'000
Medium term notes	3,135,360	2,269,356
Syndicated Loan	1,836,500	1,836,500
	4,971,860	4,105,856

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

20 Medium-term loans (continued)

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

Due date	Interest rate	2016 AED'000	2015 AED'000
24 February 2016	3 months Libor + 1.450%	-	110,190
16 May 2016	3 months Euribor + 1.250%	-	41,369
23 June 2016	1.370%	-	183,650
25 June 2016	2.060%	-	36,730
30 June 2016	3 months Libor + 0.780%	-	36,730
7 July 2016	3 months Libor + 1.300%	-	93,294
9 July 2016	1.300%	-	36,730
28 July 2016	0.270%	-	47,115
4 August 2016	3 months Libor + 0.800%	-	73,460
5 August 2016	3 months Libor + 0.850%	-	95,787
18 August 2016	0.280%	-	43,974
11 October 2016	0.250%	-	94,230
19 December 2016	0.380%	-	31,410
18 January 2017	3 months Libor + 1.000%	91,825	91,825
24 January 2017	3 months Libor + 1.125%	1,020,726	1,020,726
6 February 2017	2.750%	121,075	121,945
30 March 2017	1.880%	98,069	-
30 March 2017	0.220%	64,760	-
27 April 2017	0.220%	38,856	-
3 May 2017	0.400%	39,829	-
11 May 2017	1.830%	37,832	-
6 June 2017	3 months Libor + 1.750%	55,096	55,096
1 August 2017	2.000%	312,205	-
4 August 2017	3 months Libor + 1.050%	73,460	-
16 August 2017	0.000%	111,412	-
24 August 2017	2.000%	183,650	-
19 September 2017	0.100%	32,380	-
12 October 2017	0.150%	97,140	-
20 November 2017	2.100%	194,669	-
29 November 2017	0.200%	99,574	-
30 November 2017	2.150%	130,024	-
7 December 2017	2.220%	40,403	-
11 December 2017	0.250%	32,380	-
23 April 2018	3 months Libor + 1.050%	55,095	55,095
7 September 2018	4.100%	135,790	-
21 October 2019	3 months Libor + 1.400%	36,730	-
19 December 2019	0.500%	32,380	-
		3,135,360	2,269,356

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

20 Medium-term loans (continued)

Medium term notes are denominated in following currencies:

	2016 AED'000	2015 AED'000
U.S. Dollars	2,329,784	1,793,526
Swiss Francs	111,412	95,787
Kuwaiti Dinar	121,075	121,945
Euro	139,403	41,369
Japanese Yen	297,896	216,729
Chinese Yuan	135,790	-
	3,135,360	2,269,356

The Group established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2.75 billion) under an agreement dated 4 February 2004. On 15 March 2010, the EMTN programme limit was increased to USD 5 billion (AED 18.37 billion).

During the year, new medium-term notes of AED 1.792 billion were issued and AED 925 million of medium-term notes were redeemed.

AED 1.02 billion is a subordinated floating rate note ("FRN") and qualified and approved by U.A.E. Central Bank for Tier 2 subordinated loan capital till 2012 and is consequently being amortised at the rate of 20% per annum for next five years until January 2017 for capital adequacy calculation purposes.

(b) During the year ended 31 December 2014, the Group had signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of 3 years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis.

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2016, 177,530,823 ordinary shares of AED 10 each (31 December 2015: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 22 February 2015, the shareholders approved a stock dividend in respect of the year ended 31 December 2014 at 5% of the issued and paid up capital, amounting to AED 84.53 million. Accordingly, the authorised and issued share capital increased by the amount of the stock dividend.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

21 Issued and paid up capital and reserves (continued)

(c) General reserve

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

(d) Cumulative translation adjustment

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

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. The change in fair value for the year amounted to a profit of AED 12 million (2015: loss of AED 178 million) and was reflected in the consolidated statement of comprehensive income.

(f) Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated income statement only when the hedged transaction affects the consolidated income statement, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

The movement of the cash flow hedging reserve is below:

	2016 AED'000	2015 AED'000
At 1 January	9,221	-
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	53,333	10,791
Cumulative gain arising on changes in fair value of hedging instruments reclassified to consolidated income statement	(54,930)	(1,570)
At 31 December	7,624	9,221

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

21 Issued and paid up capital and reserves (continued)

(g) Dividends on equity instruments

During the year ended 31 December 2016, a 40% cash dividend amounting to AED 710 million for the year ended 31 December 2015 (2014: AED 676 million) was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting held on 28 February 2016.

22 Non-controlling interests

	2016 AED'000	2015 AED'000
At 1 January	717,118	755,668
Profit for the year	27,499	32,538
Other comprehensive (loss)/income for the year	47	(56,069)
Dividends paid	(16,655)	(18,129)
Additional contribution attributable to the new non-controlling interest shareholders*	-	3,110
At 31 December	728,009	717,118

* Additional contribution was made during 2015 by the non-controlling interest shareholders of Dubai Group Sigorta A.Ş.

23 Contra accounts and commitments

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

	2016 AED'000	2015 AED'000
(i) Contra accounts (memoranda)		
Guarantees	38,285,010	40,720,747
Letters of credit	4,743,855	5,912,089
	43,028,865	46,632,836
(ii) Commitments for acquisition of property and equipment	692,262	110,710
(iii) Operating lease commitments	93,181	124,061
Total contra accounts and commitments	43,814,308	46,867,607

(b) Irrevocable undrawn facilities commitments as at 31 December 2016 amounted to AED 7.9 billion (2015: AED 4.73 billion).

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

23 Contra accounts and commitments (continued)

(c) Contra accounts – maturity profile

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

2016

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	13,567,567	2,068,757	2,854,051	7,437,463	12,357,172	38,285,010
Letters of credit	3,359,779	492,225	332,929	558,922	-	4,743,855
Total	16,927,346	2,560,982	3,186,980	7,996,385	12,357,172	43,028,865

2015

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	16,278,449	1,974,273	1,790,644	7,863,492	12,813,889	40,720,747
Letters of credit	2,495,726	613,044	1,374,641	1,428,678	-	5,912,089
Total	18,774,175	2,587,317	3,165,285	9,292,170	12,813,889	46,632,836

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

(d) Operating lease commitments

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

	2016 AED'000	2015 AED'000
Less than 1 year	37,121	40,522
1 to 5 years	46,077	53,737
Over 5 years	9,983	29,802
Total	93,181	124,061

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

24 Interest income

	2016 AED'000	2015 AED'000
Loans and advances	3,392,622	3,318,455
Banks	520,761	379,512
Other financial assets	411,008	258,663
Central banks	141,688	145,316
	4,466,079	4,101,946

25 Income from Islamic financing and investment products

	2016 AED'000	2015 AED'000
<u>Financing</u>		
Murabaha	177,935	160,940
Ijara	112,108	57,676
Other	9,466	3,032
	299,509	221,648
<u>Investment</u>		
Mudaraba	10,518	5,220
Wakala	37,528	31,425
	48,046	36,645
Total	347,555	258,293

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26 Interest expense

	2016 AED'000	2015 AED'000
Customers' deposits	861,470	608,318
Deposits and balances due to other banks	397,935	363,769
Medium-term loans	86,125	61,105
	1,345,530	1,033,192

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Sharia'a Supervisory Board.

28 Net fee and commission income

	2016 AED'000	2015 AED'000
Fee and commission income		
Commission income	538,202	628,602
Insurance commission	320,466	309,004
Fees and charges on banking services	688,844	656,842
Credit card related fees	1,272,004	1,212,096
Other	229,626	218,043
	3,049,142	3,024,587
Fee and commission expenses		
Commission expense	(35,074)	(96,735)
Insurance commission	(348,852)	(330,053)
Credit card related expenses	(898,576)	(802,923)
Other	(81,967)	(70,468)
	(1,364,469)	(1,300,179)
Total fee and commission income	1,684,673	1,724,408

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

29 Net investment income

	2016 AED'000	2015 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	24,029	33,305
Fair value adjustments of other financial assets measured at FVTPL [Note 7(k)]	6,310	(41,291)
Interest income from debt securities at FVTPL	204,709	160,330
Dividends income from other financial assets measured at FVTPL	1,081	1,019
Net realised loss from sale of other financial assets measured at amortised cost	(490)	(10,345)
Dividend income from financial assets measured at FVTOCI [Note 7 (j)]	26,878	26,088
	262,517	169,106

30 Other income, net

	2016 AED'000	2015 AED'000
Fair value adjustments of investment properties (Note 12)	(2,161)	34,196
Foreign exchange gains, net	423,478	413,100
Insurance and other related income, net [Note 30(a)]	393,352	334,048
Gain/(loss) on disposal of property and equipment	53,837	(4,959)
Loss from disposal of investment properties	(250)	-
Fair value adjustment – derivatives	6,954	7,070
Other	(16,142)	38,747
	859,068	822,202

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

30 Other income, net (continued)

(a) Insurance and other related income, net

	2016 AED'000	2015 AED'000
Net insurance premium revenue	1,342,328	1,399,184
Net claims incurred	(1,249,606)	(1,115,567)
Other insurance related income, net	300,630	50,431
	<u>393,352</u>	<u>334,048</u>

31 General and administrative expenses

	2016 AED'000	2015 AED'000
Salaries and employees related expenses	1,365,105	1,405,758
Depreciation on property and equipment (Note 13)	155,611	148,637
Social contributions	-	1,238
Other	885,985	916,894
	<u>2,406,701</u>	<u>2,472,527</u>

Pension and national insurance contribution for U.A.E. citizens are made by the Group in accordance with Federal Law No. 7 of 1999.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

32 Allowances for impairment, net

2016

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

2015

	Retail AED'000	Corporate and others AED'000	Collective impairment AED'000	Total AED'000
Allowance for/(reversal of) impaired loans and advances, net [Note 8 (d)]	106,883	987,501	(305,170)	789,214
Allowance for impaired balances due from banks, net [Note 6 (c)]	-	261	-	261
Allowance for other assets, net	-	38,120	-	38,120
(Reversal of)/allowance for impaired Islamic assets, net [Note 9(d)]	(8,382)	-	8,000	(382)
Reversal of allowance against impaired other financial assets [Note 7 (d)]	-	(33,852)	-	(33,852)
Write-off of impaired loans and advances	470,835	-	-	470,835
Recovery of allowance against impaired loans and advances [Note 8 (d)]	-	(5,215)	-	(5,215)
Recovery of loans and advances previously written off	(43,596)	(215,580)	-	(259,176)
	<u>525,740</u>	<u>771,235</u>	<u>(297,170)</u>	<u>999,805</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year. In accordance with IAS 33 *Earnings Per Share*, the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented as follows:

	2016 AED	2015 AED
Profit for the year (AED'000) (Attributed to owners of the Parent)	1,926,412	2,402,107
Number of ordinary shares outstanding [Note 21 (a)]	177,530,823	177,530,823
Basic and diluted earnings per share (AED)	10.85	13.53

34 Proposed dividends

As of the date of approving the consolidated financial statements, the Board of Directors' proposed dividends has been submitted to the Central Bank of the U.A.E. for its approval.

35 Cash and cash equivalents

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

	2016 AED'000	2015 AED'000
Cash on hand	1,049,505	845,591
Balances with central banks:		
Current accounts and other balances	6,774,795	8,203,244
Deposits and balances due from banks maturing within 3 months	12,489,137	10,828,896
	20,313,437	19,877,731

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

36 Investment in subsidiaries

- (a) At 31 December 2016, Mashreqbank psc Group (the “Group”) comprises the Bank and the following direct material subsidiaries:

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

36 Investment in subsidiaries (continued)

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

Name of Subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interest	
	2016 AED '000	2015 AED '000	2016 AED '000	2015 AED '000
Oman Insurance Company (PSC) Group	25,770	31,355	682,225	699,630
Individually immaterial subsidiaries with non-controlling interests	1,729	1,183	45,784	17,488
	<u>27,499</u>	<u>32,538</u>	<u>728,009</u>	<u>717,118</u>

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

	2016 AED'000	2015 AED'000
<i>Statement of financial position</i>		
Total assets	<u>7,194,384</u>	<u>5,947,870</u>
Total liabilities	<u>5,235,972</u>	<u>4,031,726</u>
Net equity	<u>1,958,412</u>	<u>1,916,144</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

36 Investment in subsidiaries (continued)

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

	2016 AED'000	2015 AED'000
<i>Statement of comprehensive income</i>		
Net insurance premium revenue	1,342,328	1,399,184
Net claims incurred	(1,249,606)	(1,115,567)
Net commission and other income/(loss)	15,504	29,415
Net investment income	73,290	89,274
Net expenses	(101,302)	(319,823)
Profit for the year	80,214	82,483
Other comprehensive (loss)/income	9,517	(126,994)
Total comprehensive (loss)/income	89,731	(44,511)
<i>Statement of cash flows</i>		
Net cash (used in)/generated from operating activities	(49,144)	8,649
Net cash used in investing activities	(52,588)	(227,526)
Net cash flows used in financing activities	288,056	(9,588)
Net decrease in cash and cash equivalents	186,324	(228,465)

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

37 Related party transactions

- (a) Certain “related parties” (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family who own 87.76% (2015: 87.73%) of the issued and paid up capital.
- (c) Related party balances included in the consolidated statement of financial position are as follows:

	2016 AED '000	2015 AED '000
Loans and advances measured at amortised cost	2,586,403	1,539,510
Customer's deposits	1,216,323	1,401,076
Letters of credit and guarantee	1,163,375	2,014,011

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

	2016 AED '000	2015 AED '000
Interest income	85,685	63,981
Interest expense	7,809	10,353
Other income, net	53,779	52,276

- (e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 124 million (2015: AED 148 million).

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

38 Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	2016			2015		
	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000
U.A.E.	74,224,411	59,783,528	27,866,024	68,815,128	61,846,876	31,018,057
Other Middle East Countries	21,313,748	21,619,112	8,127,424	20,893,680	18,591,634	9,267,172
O.E.C.D.	10,258,253	13,049,885	2,882,022	10,269,825	11,309,970	3,192,241
Other	17,017,124	8,875,366	4,153,395	15,178,548	4,922,973	3,155,366
	<u>122,813,536</u>	<u>103,327,891</u>	<u>43,028,865</u>	<u>115,157,181</u>	<u>96,671,453</u>	<u>46,632,836</u>

(b) Industry Sector

	2016			2015		
	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities AED'000	Off balance sheet items AED'000
Government and Public Sector	16,159,314	5,938,556	532,353	15,435,113	5,660,054	175,107
Commercial & Business	38,385,617	55,813,577	31,080,882	37,825,368	52,306,710	36,028,354
Personal	17,464,353	15,884,596	659,534	15,015,784	15,431,320	920,813
Financial Institutions	49,325,148	24,989,793	10,753,643	44,848,944	22,269,348	9,439,408
Other	1,479,104	701,369	2,453	2,031,972	1,004,021	69,154
	<u>122,813,536</u>	<u>103,327,891</u>	<u>43,028,865</u>	<u>115,157,181</u>	<u>96,671,453</u>	<u>46,632,836</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

39 Segmental information

Reportable segments

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

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

1. The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the U.A.E. Trade finance, contracting finance, project finance, investment banking, corporate advisory and cash management are the major products and / or business lines making up this segment.
2. The **Domestic Retail** segment includes products and services offered to individuals or small businesses within the U.A.E. The product offerings to customers include current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, Private banking and wealth management services.
3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset-Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.
4. The **International Banking** segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection, risk participations.
5. All Islamic banking products offered to customers are included under the **Islamic Banking** segment. These products are Ijara Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijara Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.
6. The Insurance subsidiary, Oman Insurance Company (PSC) – comprises the **Insurance** segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.
7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas income tax expenses.

39 Segmental information (continued)

2016

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

39 Segmental information (continued)

2015

	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head Office AED'000	Total AED'000
Net interest income and earnings from								
Islamic products	876,311	1,202,319	69,458	631,421	193,036	40,963	248,281	3,261,789
Other operating income, net	447,411	635,477	483,192	669,321	114,534	352,188	13,593	2,715,716
Total operating income	1,323,722	1,837,796	552,650	1,300,742	307,570	393,151	261,874	5,977,505
General and administrative expenses								
Allowances for impairment								(2,472,527)
Profit before taxes								
Overseas income tax expense								(70,528)
Profit for the year								2,434,645
Attributed to:								
Owners of the Parent								2,402,107
Non-controlling interests								32,538
Segment Assets	29,500,767	14,430,585	15,657,273	32,831,357	7,594,622	4,204,384	10,938,193	115,157,181
Segment Liabilities	26,799,217	23,041,000	9,009,000	21,281,772	8,459,961	2,336,422	5,744,081	96,671,453

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

39 Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		Non-current assets **	
	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000
U.A.E.	5,018,642	4,968,974	1,654,537	1,653,031
Other Middle East countries	904,865	790,110	26,987	36,008
O.E.C.D.	192,806	167,524	3,625	2,476
Other countries	52,312	50,897	16,718	19,530
	6,168,625	5,977,505	1,701,867	1,711,045

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property and equipment, investment properties and goodwill.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2016 and 2015.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

40 Classification of financial assets and liabilities

- (a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	18,629,582	18,629,582
Deposits and balances due from banks	-	-	18,667,750	18,667,750
Other financial assets measured at fair value	1,650,520	768,679	-	2,419,199
Loans and advances measured at amortised cost	-	-	53,428,461	53,428,461
Islamic financing and investment products measured at amortised cost	-	-	7,565,063	7,565,063
Other financial assets measured at amortised cost	-	-	10,849,298	10,849,298
Other assets	863,918	-	8,420,242	9,284,160
Total	2,514,438	768,679	117,560,396	120,843,513
Financial liabilities:				
Deposits and balances due to banks	-	-	8,932,076	8,932,076
Repurchase agreements with banks	-	-	605,600	605,600
Customers' deposits	-	-	69,947,124	69,947,124
Islamic customers' deposits	-	-	7,093,383	7,093,383
Other liabilities	872,229	-	7,997,765	8,869,994
Medium-term loans	-	-	4,971,860	4,971,860
Total	872,229	-	99,547,808	100,420,037

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

40 Classification of financial assets and liabilities (continued)

- (b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2015:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	19,423,463	19,423,463
Deposits and balances due from banks	-	-	15,009,990	15,009,990
Other financial assets measured at fair value	3,267,810	657,155	-	3,924,965
Loans and advances measured at amortised cost	-	-	53,555,070	53,555,070
Islamic financing and investment products measured at amortised cost	-	-	6,610,606	6,610,606
Other financial assets measured at amortised cost	-	-	7,993,072	7,993,072
Other assets	879,233	-	5,647,102	6,526,335
Total	4,147,043	657,155	108,239,303	113,043,501
Financial liabilities:				
Deposits and balances due to banks	-	-	9,231,913	9,231,913
Repurchase agreements with banks	-	-	734,564	734,564
Customers' deposits	-	-	65,243,790	65,243,790
Islamic customers' deposits	-	-	8,391,490	8,391,490
Other liabilities	872,607	-	5,508,490	6,381,097
Medium-term loans	-	-	4,105,856	4,105,856
Total	872,607	-	93,216,103	94,088,710

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

- (a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.
- (b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.
- (c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.
- (d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.
- (e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

41 **Derivatives (continued)**

Notional amount by term maturity

		Notional amount by term 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
<i>Derivatives held for trading:</i>						
Forward foreign exchange contract	379,705	452,175	46,706,024	32,647,759	6,970,964	1,277,751
Foreign exchange options (bought)	-	35,128	2,180,458	776,227	1,163,494	-
Foreign exchange options (sold)	37,591	-	2,082,554	678,323	1,163,494	-
Interest rate swaps	389,820	383,051	25,663,298	528,393	1,036,522	7,087,954
Credit default swaps	-	225	20,000	-	-	-
Equity options	-	-	-	-	-	-
Futures contracts purchased (Customer)	-	990	119,422	111,069	8,353	-
Futures contracts sold (Customer)	660	-	122,862	122,862	-	-
Futures contracts sold (Bank)	990	-	119,422	111,069	8,353	-
Futures contracts purchased (Bank)	-	660	122,862	122,862	-	-
	808,766	872,229	77,136,902	35,098,564	10,351,180	7,087,954
<i>Derivatives held as cash flow hedges:</i>						
Cross currency swaps	55,152	-	270,735	270,735	-	-
	863,918	872,229	77,407,637	35,369,299	10,351,180	7,087,954
Total						

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

41 Derivatives (continued)

Statement of Derivatives as at 31 December 2015

	Notional amount by term maturity							
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000
<i>Derivatives held for trading:</i>								
Forward foreign exchange contract	246,524	251,518	52,793,334	42,433,000	5,440,883	4,360,410	559,041	-
Foreign exchange options (bought)	-	26,821	2,825,778	1,392,343	449,175	173,683	810,577	-
Foreign exchange options (sold)	28,804	-	2,416,564	1,894,483	86,427	30,364	405,290	-
Interest rate swaps	595,413	591,110	31,254,336	1,611,688	72,424	1,842,172	19,782,517	7,945,535
Credit default swaps	17	-	18,365	-	18,365	-	-	-
Equity options	3,499	-	20,234	20,234	-	-	-	-
Futures contracts purchased (Customer)	-	48	36,551	34,118	2,433	-	-	-
Futures contracts sold (Customer)	-	2,361	122,695	122,695	-	-	-	-
Futures contracts sold (Bank)	48	-	36,551	34,118	2,433	-	-	-
Futures contracts purchased (Bank)	2,361	-	122,695	122,695	-	-	-	-
	876,666	871,858	89,647,103	47,665,374	6,072,140	6,406,629	21,557,425	7,945,535
<i>Derivatives held as cash flow hedges:</i>								
Cross currency swaps	2,567	749	270,735	-	-	-	270,735	-
Total	879,233	872,607	89,917,838	47,665,374	6,072,140	6,406,629	21,828,160	7,945,535

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****42 Capital management**

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

- To comply with the capital requirements set by the BCBS (Basel Committee) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business.

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the U.A.E. adopted the Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

As per Central Bank draft regulation for Basel – III, the capital requirement in year 2016 was 12.25% inclusive of Capital Conservation and Countercyclical buffers. This is expected to increase to 16% by year 2019.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly owned excluding non-controlling interest in insurance company, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of CRWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (up to a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI.
- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however the Regulator may allow use of excess capital (over regulatory limits) invested.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

42 Capital management (continued)

Regulatory capital (continued)

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA. As per Central Bank draft regulation for Basel – III, the Tier I Capital requirement was 10.25% of which CET1 is 8.75% in year 2016 inclusive of Capital Conservation and Countercyclical buffers. This is expected to increase to 14% for Tier 1 of which CET1 is 12.5% by year 2019.

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. For U.A.E. Central Bank reporting purposes, the bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group issued in the year ended 31 December 2007 medium-term floating rates notes.

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

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

The Group's regulatory capital positions as at 31 December 2016 and 2015 were as follows:

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

42 Capital management (continued)

Regulatory capital (continued)

	2016 AED'000	2015 AED'000
<i>Tier 1 capital</i>		
Issued and paid up capital	1,775,308	1,775,308
Statutory and legal reserve	899,351	896,595
General reserve	312,000	312,000
Cumulative translation adjustment	(298,562)	(60,610)
Goodwill	(15,365)	(18,150)
Retained earnings	16,310,198	15,112,512
Non-controlling interest	6,123	5,835
Deduction from Tier 1 Capital	(24,288)	(22,750)
Total	18,964,765	18,000,740
<i>Tier 2 capital</i>		
Allowance for collective impairment	1,325,100	1,246,645
Investments revaluation reserve	(248,283)	(276,416)
Cash flow hedging reserve	7,624	9,221
Qualifying subordinated liabilities*	17,012	221,157
Deduction from Tier 2 Capital	(24,288)	(22,750)
Total	1,077,165	1,177,857
Total capital base (A)	20,041,930	19,178,597
<i>Risk-weighted assets</i>		
Credit risk	106,007,825	99,731,614
Market risk	2,498,202	4,424,390
Operational risk	10,367,924	9,358,033
Total risk-weighted assets (B)	118,873,951	113,514,037
Risk asset ratio [(A)/(B) x 100]	16.86%	16.90%

* Qualifying subordinated liabilities represents the following:

	2016 AED'000	2015 AED'000
Medium-term notes [Note 20]	1,020,726	1,020,726
Less: Cumulative amortisation	(1,003,714)	(799,569)
	17,012	221,157

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****42 Capital management (continued)****Capital allocation**

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

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

43 Risk management

The core responsibility of the Risk Management Group is to identify, measure, mitigate, price and manage risk to ensure that the Bank generates sustainable returns by maintaining acceptable asset quality and meeting the desired capital return as mandated by the shareholders.

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Groups ability to consistently foster a robust risk management culture and framework is an important factor in its financial stability and growth.

Risk Management Framework

The Board of Directors (the "BOD") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by various committees including the Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee etc., who work under the mandate of the BOD. These committees approve risk management policies of the Bank developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Group. The Risk Committee is responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Risk Committee also monitors and establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain asset quality.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****43 Risk management (continued)*****Risk Management Framework (continued)***

The Risk Management Group function is independent of the business groups and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Audit, Fraud and Compliance Group (AFCG) are independent of Risk Management. AFCG provides independent assurance to stakeholders and senior management on compliance with all credit policies and procedures in the Bank and the effectiveness of credit management processes. This is undertaken by a periodic review of all risk-taking units, in addition to Risk Management. AFCG reports directly to the Chief Executive Officer (CEO).

Risk Analytics and Modelling:

Mashreq has robust metrics in place for determining Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD") variables. The Basel Risk Analytics and Modelling Unit within Risk Management Group is responsible as per Basel II guidelines for periodically validating various risk rating models including recalibration PD, LGD and EAD parameters.

The Internal Capital Adequacy Assessment Process (ICAAP) and the Stress Testing team within Risk Management Group is responsible for calculating the Group's economic capital requirement and managing the Group's Internal Capital Adequacy Assessment Process (ICAAP). This entails monitoring the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less risk capital demand) and recommending appropriate actions, as required.

As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific obligors or industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis

Credit risk management

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, dues from banks and financial institutions and non-trading investment activities.

Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated and appropriate credit limits are established through adoption of prudent credit structures relevant to the credit risk. To reduce individual counterparty credit risk, the Group ensures that, whenever necessary, loans are secured by acceptable form of collateral. The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate performing borrower is assigned an internal rating between MRS 1 to MRS 25 and non-performing borrowers are assigned ratings of non-accrual under restructuring (NAUR), substandard, doubtful and loss.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****43 Risk management (continued)****Credit risk management (continued)**

All credit policies are reviewed and approved by the Bank's Risk Committee. The policies are reviewed regularly to reflect changes in market conditions or regulatory requirements.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. Credit risk is also mitigated through adoption of prudent credit structures relevant to the credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale credit risk management

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky or speculative.

Limit setting is based on a combination of factors, including a detailed evaluation of each customer's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

The Wholesale Credit Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head in line with the Wholesale Credit Policy, and approved by the Group's Chief Executive Officer (the "CEO").

The Group has established limits for managing transferability and convertibility, together defined as cross-border limits. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on each country's financial strength and stability, using a set of metrics such as external debt, overall fiscal position, exports, imports, foreign exchange reserves and external debt service ratio. These limits are then applied to all international transaction flows where there is a risk of default represented by convertibility and/or transferability restrictions.

Wholesale Credit Risk Management includes Special Assets Management Group that manages credits that are rated as watch list and worse. Special Assets Management Group was established to have a more focused view on all remedial accounts and, on a pro-active basis, identify and take timely actions on potential weak credits and also performs recovery function.

Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports to Operations & Technology Group.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to the approved product program, which is devised in accordance with guidelines set out in the retail credit policy manual approved by the Group's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models for high volume products such as Credit cards and Personal loans & based on manual underwriting on documented policies for low volume products such as Mortgages and Auto loans. Periodic and detailed credit reviews are performed at portfolio level to monitor and track portfolio performance.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Credit risk management (continued)

Retail credit risk management (continued)

All approval authorities are delegated by the Chief Executive Officer (the “CEO”) acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels are also captured in the Product Program.

Credit review procedures

Specialists within AFCG undertake regular reviews of the portfolio. In the wholesale portfolio this involves sampling of assets. In retail the focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group’s risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the Group’s internal policies in order to assist in the early identification of potential problems and ensure approved credit policies, guidelines and operating procedures across the Group are implemented.

Loan classification

As per Mashreq’s wholesale credit policy, all performing commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 – 22. 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 in the note below.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non-performing assets.

Outside the 25 point scale, there are 4 ratings – Non-Accrual Under Restructuring (NAUR), Sub-standard, Doubtful and Loss, categorised as Non-Performing assets. NAUR rating is assigned to borrowers that are past due by more than 90 days on payment of interest and where negotiation for re-structuring is in progress. Sub-standard loans are assets where the ability to service the debt has been severely impacted and where the principal or interest is past due for over 90 days and there is no immediate prospects of a restructuring. Provisions and loans classification are taken in line with the Central Bank of U.A.E. guidelines and IFRS.

When interest or principal of a credit is overdue for ninety days or more, interest is suspended and is not credited to consolidated income statement. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortisation into income of deferred loan fees ceases. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

Any collections on cash basis for non-performing loans are accounted for on the basis of credit policy. Where provisions are held, the amount collected is applied first towards principal, and then to interest. Where provisions are not held, the amount collected is applied first to interest and then to principal.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****43 Risk management (continued)****Credit risk management (continued)*****Impaired loans and securities***

Impaired loans and other financial assets are loans and other financial assets for which the Group determines that it will be unable to collect all principal and interest due according to the contractual terms of the loans and other financial assets agreements. These assets are graded Non-Accrual under Restructuring (NAUR), Sub-Standard, Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits. It also includes assets where interest has been suspended or stopped pending conclusion of the re-structuring.

Impairment of retail loans is calculated by applying a formulaic approach as per Central Bank guidelines whereby a provision of 25% of principal balance is made when it is past due by more than 90 days and less than 120 days a provision of 50% of principal balance is made when is past due by more than 120 days and less than 180 days. Where such a segregation is not possible as to principal balance, the provisions are taken as aforesaid on the total balance against the facility. Retail loans are written off at a maximum of 181 days past their due date, based on the characteristics of the underlying product. The only exception to this is mortgages, where provisioning is based on Central Bank guidelines. Notwithstanding for certain high risk mortgages, the entire outstanding is fully provided for at 180 days overdue.

Past due but not impaired loans and securities

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual interest or principal payments are past due. Very often these overdues are only for a few days and do not reflect fundamental weaknesses. On this class of asset the Group believes that specific impairment is not appropriate at the current condition on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for the statistical possibility that some of these loan may get impaired in future.

The Group also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective interest rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available.

Write-off policy

The Group writes off a loan or other financial asset (and any related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Assets are written-off against provisions up to the extent of amount considered un-collectible. However, the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written off accounts.

Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

43 Risk management (continued)

Credit risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Islamic financing and investment		Other financial assets measured at amortised cost	
	2016	2015	2016	2015	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired								
Non-Accrual Under Restructuring	-	-	88,287	83,332	8,047	-	-	-
Substandard	-	-	351,858	231,154	9,347	25,663	-	-
Doubtful	-	-	868,222	989,691	31,382	19,820	-	-
Loss	-	-	895,269	648,219	22,278	16,289	111,998	111,998
Gross amount	-	-	2,203,636	1,952,396	71,054	61,772	111,998	111,998
Interest/profit suspended	-	(122)	(310,336)	(229,533)	(4,574)	(4,719)	(2,129)	(2,129)
Specific allowance for impairment	-	-	(1,045,147)	(774,884)	(25,971)	(19,212)	(109,869)	(109,869)
	-	(122)	848,153	947,979	40,509	37,841	-	-
Past due but not impaired								
Past due by less than 90 days	-	-	121,589	99,788	-	94,766	-	-
Past due beyond 90 days	-	-	29,938	-	-	92,000	-	-
Past due retail loans beyond 30 days	-	-	384,100	365,776	41,480	25,873	-	-
	-	-	535,627	465,564	41,480	212,639	-	-
	18,667,750	15,010,112	53,909,731	53,903,279	7,507,774	6,384,826	10,849,298	7,993,072
	-	-	(202,000)	(202,000)	-	-	-	-
	-	-	(1,663,050)	(1,559,752)	(24,700)	(24,700)	-	-
	18,667,750	15,010,112	52,044,681	52,141,527	7,483,074	6,360,126	10,849,298	7,993,072
	18,667,750	15,009,990	53,428,461	53,555,070	7,565,063	6,610,606	10,849,298	7,993,072
Carrying amount								

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Credit risk management (continued)

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2016 and 2015 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

Grades	Loans and advances		Islamic financing and investment products	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Grade 1 – Low risk	3,863,219	4,036,364	701,448	547,836
Grade 2 – Satisfactory risk	36,675,960	38,850,512	5,217,573	4,668,614
Grade 3 – Fair Risk	6,755,585	5,870,094	366,295	672,514
Grade 4 – Watch List	6,614,967	5,146,309	1,222,457	495,862
	53,909,731	53,903,279	7,507,773	6,384,826

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

The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		Due from banks	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Against individually impaired loans and advances:				
Property	197,342	142,859	-	-
Equities	238,404	477,942	-	-
Cash	99,878	2,848	-	-
Against loans and advances not impaired:				
Property	10,323,793	10,581,068	-	-
Equities	1,121,515	1,234,669	-	-
Cash	916,205	619,112	109,069	192,953
Others	4,870,659	4,128,877	-	-
Total	17,767,796	17,187,375	109,069	192,953

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Credit risk management (continued)

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

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D. AED'000	Total AED'000
2016				
Impaired loans and advances	1,294,707	908,762	167	2,203,636
Impairment allowance for credit losses inclusive of interest in suspense	(777,925)	(577,354)	(203)	(1,355,482)
	<u>516,782</u>	<u>331,408</u>	<u>(36)</u>	<u>848,154</u>
2015				
Impaired loans and advances	906,280	1,045,916	200	1,952,396
Impairment allowance for credit losses inclusive of interest in suspense	(499,469)	(504,712)	(236)	(1,004,417)
	<u>406,811</u>	<u>541,204</u>	<u>(36)</u>	<u>947,979</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	O.E.C.D. AED'000	Total AED'000
2016				
Impaired Islamic financing and investment products	71,054	-	-	71,054
Impairment allowance for credit losses inclusive of profit in suspense	(30,505)	-	-	(30,505)
	<u>40,549</u>	<u>-</u>	<u>-</u>	<u>40,549</u>
2015				
Impaired Islamic financing and investment products	48,755	13,017	-	61,772
Impairment allowance for credit losses inclusive of profit in suspense	(23,931)	-	-	(23,931)
	<u>24,824</u>	<u>13,017</u>	<u>-</u>	<u>37,841</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****43 Risk management (continued)****Operational risk management**

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

Governance

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

Operational risk management follows three lines of defence model;

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

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

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

Risk identification, monitoring and reporting

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

Risk and control self-assessment (RCSA)

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

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

Incident management

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Market risk management

Market Risk is the risk that fair value or cash flows of financial instruments held by Mashreq Group or its income may be adversely affected by movement in market factors such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market Risk at Mashreq Bank is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is completely independent of the business. The Market Risk Function reports to the Head of Risk Management.

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

Each trading desk has a Permitted Product List comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from the TCM Product Policy Committee which assesses the risks associated with the product and verifies that they can be controlled effectively prior to approving the product.

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval using Monte Carlo Simulations approach across its trading portfolio. Value at Risk framework is supplemented by other limits and sensitivity triggers.

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

During the year ended 31 December 2016, VaR was calculated regularly and as of 31 December 2016 the 99% one day VaR was USD 1.145 million (2015: USD 0.769 million).

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Interest rate risk management

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

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

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at 31 December 2016 would have been an decrease in profit by 5.37% (in case of decrease of interest rate) and would have been an increase in profit by 5.51% (in case of increase of interest rate) [2015: -3.86% and +4.35%] respectively.

During the year ended 31 December 2016, the effective interest rate on due from banks and certificates of deposits with central banks was 1.56% (2015: 1.36%), on loans and advances measured at amortised cost 5.52% (2015: 5.40%), on customers' deposits 1.10% (2015: 0.87%) and on due to banks (including repurchase agreements) 0.83% (2015: 0.61%).

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

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

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

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

2016

Liabilities and equity

	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
Deposits and balances due to banks	5,337,734	389,844	303,034	-	-	2,901,464	8,932,076
Repurchase agreements with banks	605,600	-	-	-	-	-	605,600
Customers' deposits	18,487,369	8,075,316	5,494,292	2,484,100	724,337	34,681,710	69,947,124
Islamic customers' deposits	2,914,884	392,031	675,219	520,868	21,440	2,568,941	7,093,383
Insurance and life assurance funds	-	-	-	-	-	1,510,758	1,510,758
Other liabilities	-	-	-	-	-	10,267,090	10,267,090
Medium-term loans	1,396,456	171,612	3,032,385	259,995	-	111,412	4,971,860
Equity attributable to shareholders of the Parent	-	-	-	-	-	18,757,636	18,757,636
Non-controlling interest	-	-	-	-	-	728,009	728,009
Total liabilities and equity	28,742,043	9,028,803	9,504,930	3,264,963	745,777	71,527,020	122,813,536
On Balance Sheet gap	41,459,747	4,199,776	(5,305,580)	3,008,717	2,527,948	(45,890,608)	-
Off Balance Sheet gap	(231,044)	225,034	(6,717)	(1,240)	13,967	-	-
Cumulative interest rate sensitivity gap	41,228,703	45,653,513	40,341,216	43,348,693	45,890,608	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

2015	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	9,067,710	1,300,000	740,150	-	-	8,315,603	19,423,463
Deposits and balances due from banks	8,947,999	2,724,705	1,140,866	110,455	50,206	2,035,759	15,009,990
Other financial assets measured at fair value	520,704	542,360	1,128,184	58,713	165,633	1,509,371	3,924,965
Loans and advances measured at amortised cost	36,593,694	6,733,692	1,597,553	6,337,619	2,048,454	244,058	53,555,070
Islamic financing and investment products measured at amortised cost	4,433,943	339,820	616,033	798,420	355,185	67,205	6,610,606
Other financial assets measured at amortised cost	4,026,899	2,578,099	347,064	824,152	179,013	37,845	7,993,072
Other assets	-	-	-	-	-	6,928,970	6,928,970
Goodwill	-	-	-	-	-	18,150	18,150
Investment properties	-	-	-	-	-	527,525	527,525
Property and equipment	-	-	-	-	-	1,165,370	1,165,370
Total assets	63,590,949	14,218,676	5,569,850	8,129,359	2,798,491	20,849,856	115,157,181

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

2015	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	5,482,557	308,487	253,757	379,712	-	2,807,400	9,231,913
Repurchase agreements with banks	-	734,564	-	-	-	-	734,564
Customers' deposits	19,116,841	6,900,445	4,187,829	3,018,212	201,134	31,819,329	65,243,790
Islamic customers' deposits	4,643,417	788,575	481,618	369,843	24,955	2,083,082	8,391,490
Insurance and life assurance funds	-	-	-	-	-	1,559,704	1,559,704
Other liabilities	-	-	-	-	-	7,404,136	7,404,136
Medium-term loans	110,190	298,479	516,000	3,181,187	-	-	4,105,856
Equity attributable to shareholders of the Parent	-	-	-	-	-	17,768,610	17,768,610
Non-controlling interest	-	-	-	-	-	717,118	717,118
Total liabilities and equity	29,353,005	9,030,550	5,439,204	6,948,954	226,089	64,159,379	115,157,181
On Balance Sheet gap	34,237,944	5,188,126	130,646	1,180,405	2,572,402	(43,309,523)	-
Off Balance Sheet gap	(313,990)	211,605	98,150	(9,730)	13,965	-	-
Cumulative interest rate sensitivity gap	33,923,954	39,323,685	39,552,481	40,723,156	43,309,523	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Market risk management (continued)

Currency risk management

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

	2016			2015		
	Net spot Position AED'000	Forward position AED'000	Total AED'000	Net spot position AED'000	Forward position AED'000	Total AED'000
U.S. Dollars	9,717,274	(7,849,642)	1,867,632	12,182,344	(6,004,068)	6,178,276
Qatari Riyals	1,387,794	769,123	2,156,917	1,884,106	368,803	2,252,909
Pound Sterling	(702,160)	706,186	4,026	(377,285)	397,348	20,063
Euro	(3,122,223)	3,323,364	201,141	(3,076,294)	3,179,645	103,351
Bahrain Dinar	153,179	(30,119)	123,060	532,934	(5,245)	527,689
Saudi Riyal	(901,433)	960,864	59,431	(735,517)	841,538	106,021
Japanese Yen	(368,860)	420,037	51,177	(244,606)	210,342	(34,264)
Swiss Francs	(124,926)	128,107	3,181	(93,424)	92,691	(733)
Kuwaiti Dinar	67,936	(578)	67,358	91,587	(58,612)	32,975
Chinese Yuan	(230,315)	230,300	(15)	78,791	(78,815)	(24)
Other	(32,888)	81,951	49,063	395,864	191,643	587,507
Total	5,843,378	(1,260,407)	4,582,971	10,638,500	(864,730)	9,773,770

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

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

Liquidity risk management

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****43 Risk management (continued)****Liquidity risk management (continued)**

Mashreq's Board of Directors ("BOD") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy. Among Mashreq's Board of Directors, Mr. Abdul Aziz Abdulla Al Ghurair, the Bank's Chief Executive Officer and Director, is chiefly responsible for the oversight of Liquidity management within the Bank.

Mashreqbank's Head Office (HO) and International Banking Group (IBG) Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's assets and liabilities structure and funding strategy. ALCOs meet on a monthly basis or more often if required to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions of all foreign branches and for outlining these clearly in the bank's liquidity policies.

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

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, to date; this has outstanding balance of AED 3.14 billion (2015: AED 2.27 billion) [Note 20(a)] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through of its London branch in 2014. The Bank raised a US\$ 500 million syndicated loan through its key relationship Banks in July 2014.

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

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

Inter-bank borrowing lines and repurchase facilities with commercial counterparts and the Central Bank of U.A.E. are part of the contingency funding options maintained by the Treasury.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Liquidity risk management (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2016 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	16,425,159	1,204,423	1,000,000	-	-	18,629,582
Deposits and balances due from banks	12,489,137	4,436,173	1,311,151	431,289	-	18,667,750
Other financial assets measured at fair value	1,102,170	137,778	344,910	222,310	612,031	2,419,199
Loans and advances measured at amortised cost	20,975,850	2,764,492	4,754,120	14,798,643	10,135,356	53,428,461
Islamic financing and investment products measured at amortised cost	4,807,405	157,060	100,765	1,309,730	1,190,103	7,565,063
Other financial assets measured at amortised cost	2,014,790	652,523	549,978	4,287,734	3,344,273	10,849,298
Other assets	3,125,001	2,861,642	2,800,294	181,063	584,316	9,552,316
Goodwill	-	-	-	-	15,365	15,365
Investment properties	-	-	-	-	520,864	520,864
Property and equipment	-	-	-	-	1,165,638	1,165,638
Total assets	60,939,512	12,214,091	10,861,218	21,230,769	17,567,946	122,813,536

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	8,239,198	389,844	303,034	-	-	8,932,076
Repurchase agreements with banks	605,600	-	-	-	-	605,600
Customers' deposits	53,166,224	8,059,135	5,483,935	2,513,493	724,337	69,947,124
Islamic customers' deposits	5,483,825	392,031	675,219	520,868	21,440	7,093,383
Insurance and life assurance funds	-	-	1,020,068	490,690	-	1,510,758
Other liabilities	3,945,364	2,408,180	3,024,911	595,527	293,108	10,267,090
Medium-term loans	1,396,456	171,612	3,143,797	259,995	-	4,971,860
Equity attributable to shareholders of the Parent	-	-	-	-	18,757,636	18,757,636
Non-controlling interest	-	-	-	-	728,009	728,009
Total liabilities and equity	72,836,667	11,420,802	13,650,964	4,380,573	20,524,530	122,813,536

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2015 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	17,383,313	1,300,000	740,150	-	-	19,423,463
Deposits and balances due from banks	10,828,896	2,452,057	1,436,148	242,683	50,206	15,009,990
Other financial assets measured at fair value	1,305,403	547,264	1,134,688	256,540	681,070	3,924,965
Loans and advances measured at amortised cost	19,273,866	4,766,025	3,704,998	16,398,763	9,411,418	53,555,070
Islamic financing and investment products measured at amortised cost	2,783,732	583,423	575,342	2,146,992	521,117	6,610,606
Other financial assets measured at amortised cost	498,459	238,192	704,942	3,547,669	3,003,810	7,993,072
Other assets	2,817,479	2,050,944	1,099,923	451,131	509,493	6,928,970
Goodwill	-	-	-	-	18,150	18,150
Investment properties	-	-	-	-	527,525	527,525
Property and equipment	-	-	-	-	1,165,370	1,165,370
Total assets	54,891,148	11,937,905	9,396,191	23,043,778	15,888,159	115,157,181

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	6,457,209	319,613	250,006	2,205,085	-	9,231,913
Repurchase agreements with banks	-	734,564	-	-	-	734,564
Customers' deposits	50,032,423	6,969,927	4,400,894	3,091,190	749,356	65,243,790
Islamic customers' deposits	6,726,415	788,658	481,618	369,843	24,956	8,391,490
Insurance and life assurance funds	-	-	1,036,170	523,534	-	1,559,704
Other liabilities	3,635,225	1,785,953	1,140,756	557,662	284,540	7,404,136
Medium-term loans	110,190	298,479	516,000	3,181,187	-	4,105,856
Equity attributable to shareholders of the Parent	-	-	-	-	17,768,610	17,768,610
Non-controlling interest	-	-	-	-	717,118	717,118
Total liabilities and equity	66,961,462	10,897,194	7,825,444	9,928,501	19,544,580	115,157,181

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43 Risk management (continued)

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2015.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2016 (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 input	Relationship of unobservable inputs to fair value
	31-Dec-16 AED'000	31-Dec-15 AED'000				
Financial assets measured at FVTPL						
Quoted equity investments	-	16,548	Level 1	Quoted bid prices in an active market	None	NA
Quoted debt investments	369,195	188,924	Level 1	Quoted bid prices in an active market	None	NA
Unquoted debt investments	680,364	2,404,569	Level 2	Based on the recent similar transaction in market	Similar market transaction	Higher the price of the interest rate lower the value of bond.
Unquoted debt investments	63,837	67,518	Level 3	Based on discounted cashflow model	Interest rate	Higher the interest rate lower the value of bond.
Mutual and other funds	274,558	327,807	Level 3	Net assets values of the funds	Net assets value	Higher the net asset value, higher the fair value.
Unquoted equity investments	215	508	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Mutual and other funds	262,351	261,936	Level 1	Quoted bid prices in an active market	None	NA
	1,650,520	3,267,810				

Notes to the consolidated financial statements
for the year ended 31 December 2016 (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 input	Relationship of unobservable inputs to fair value
	31-Dec-16 AED'000	31-Dec-15 AED'000				
Financial assets measured at FVTOCI						
Quoted equity investments	384,214	402,783	Level 1	Quoted bid prices in an active market	None	NA
Unquoted equity investments	348,294	216,650	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Mutual and Other funds	36,171	37,722	Level 1	Quoted bid prices in an active market	None	NA
	768,679	657,155				
	2,419,199	3,924,965				

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

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

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

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

	2016 AED'000	2015 AED'000
At 1 January	395,834	393,977
Purchases	97,250	134,367
Disposals/matured	(158,298)	(199,308)
Transfer in	-	85,178
Change in fair value	3,824	(18,380)
At 31 December	338,610	395,834

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

	2016 AED'000	2015 AED'000
At 1 January	216,650	214,647
Purchases	106,165	37,350
Disposals/matured	(16,643)	(21,397)
Change in fair value	42,122	(13,950)
At 31 December	348,294	216,650

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

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

2016	Carrying amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	10,849,298	7,070,188	1,237,774	2,450,533	10,758,495

2015

Financial assets:

Other financial assets measured at amortised cost	7,993,072	6,232,112	-	1,687,966	7,920,078

2016	Carrying	Fair value			
	Amount	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Financial liabilities</i>					
Medium-term notes	3,135,360	1,786,183	-	1,340,883	3,127,066

2015

Financial liabilities

Medium-term notes	2,269,356	1,434,794	-	811,281	2,246,075

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2016 and 2015:

	Reflected in consolidated statement of income		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
2016				
Other financial assets measured at fair value	165,052	(165,052)	76,868	(76,868)
2015				
Other financial assets measured at fair value	326,781	(326,781)	65,715	(65,715)

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

44 Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of 31 December 2016 of AED 1 million (2015: AED 1 million).

45 Fund management

Makaseb Funds Company BSC and Mashreq Capital (DIFC) Limited (Note 36) manage a number of funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

46 Foreign restricted assets

Net assets equivalent to AED 98 million as at 31 December 2016 (2015: AED 91 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

47 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board of Directors and authorised for issue on 25 January 2017.