Mashreqbank PSC Group

Condensed consolidated interim financial information for the period from 1 January 2018 to 30 September 2018

Mashreqbank PSC Group

Review report and interim financial information for the period from 1 January 2018 to 30 September 2018

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Mashreqbank PSC ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 September 2018 and the related condensed consolidated statements of profit or loss and other comprehensive income for the three-month and nine-month periods then ended, and the condensed consolidated statements of changes in equity and cash flows for the nine month period then ended, and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
21 October 2018

Douglas O'Mahony
Registered Auditor Number 834
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MASHREQBANK PSC GROUP

Condensed consolidated statement of financial position as at 30 September 2018

	Notes	30 September 2018 (un-audited) AED '000	31 December 2017 (audited) AED '000
ASSETS			
Cash and balances with central banks		**17,188,607**	16,899,076
Deposits and balances due from banks		**21,902,077**	20,135,427
Other financial assets measured at fair value	6	**2,086,593**	1,580,545
Loans and advances measured at amortised cost	7	**57,479,232**	53,394,165
Islamic financing and investment products measured at amortised cost	8	**11,874,269**	9,339,467
Other financial assets measured at amortised cost	6	**12,263,704**	12,583,404
Other assets		**12,721,227**	9,381,071
Goodwill		**9,766**	14,414
Investment properties	9	**517,691**	517,691
Property and equipment	10	**1,402,672**	1,342,976
Total assets		**137,445,838**	125,188,236
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	**9,094,276**	9,313,430
Repurchase agreements with banks		**1,082,227**	557,183
Customers' deposits	12	**73,906,279**	69,380,208
Islamic customers' deposits	13	**8,326,968**	6,680,874
Insurance and life assurance funds		**1,675,805**	1,582,695
Other liabilities		**14,979,842**	10,321,394
Medium-term loans	14	**7,793,658**	6,226,032
Total liabilities		**116,859,055**	104,061,816
EQUITY			
Capital and reserves			
Issued and paid up capital	15	**1,775,308**	1,775,308
Statutory and legal reserves		**903,877**	901,621
General reserve		**312,000**	312,000
Cumulative translation adjustment		**(88,062)**	(59,163)
Investment revaluation reserve		**(243,482)**	(184,989)
Retained earnings		**17,248,463**	17,618,669
Equity attributable to owners of the Parent		**19,908,104**	20,363,446
Non-controlling interests	16	**678,679**	762,974
Total equity		**20,586,783**	21,126,420
Total liabilities and equity		**137,445,838**	125,188,236

Abdulla Bin Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Mashreqbank PSC Group

Condensed consolidated statement of profit or loss for the period from 1 January 2018 to 30 September 2018 (un-audited)

	Notes	For the three month period ended 30 September		For the nine month period ended 30 September	
		2018 AED '000	2017 AED '000	2018 AED '000	2017 AED '000
Interest income		**1,443,382**	1,209,765	**4,024,384**	3,547,576
Income from Islamic financing and investment products		**155,471**	104,206	**399,945**	298,678
Total interest income and income from Islamic financing and investment products		**1,598,853**	1,313,971	**4,424,329**	3,846,254
Interest expense		**(590,184)**	(364,989)	**(1,453,233)**	(1,062,317)
Distribution to depositors – Islamic products		**(71,082)**	(39,270)	**(179,476)**	(112,516)
Net interest income and net income from Islamic products		**937,587**	909,712	**2,791,620**	2,671,421
Fee and commission income		**668,378**	750,412	**2,124,120**	2,227,922
Fee and commission expense		**(345,097)**	(336,468)	**(1,061,466)**	(1,051,465)
Net fee and commission income		**323,281**	413,944	**1,062,654**	1,176,457
Net investment income		**6,977**	29,286	**25,340**	103,017
Other income, net		**222,177**	87,823	**714,679**	484,273
Operating income		**1,490,022**	1,440,765	**4,594,293**	4,435,168
General and administrative expenses	17	**(637,275)**	(581,016)	**(1,947,251)**	(1,756,233)
Allowances for impairment, net		**(248,573)**	(264,761)	**(837,652)**	(916,240)
Profit before taxes		**604,174**	594,988	**1,809,390**	1,762,695
Tax expense		**(6,057)**	(24,261)	**(27,515)**	(70,008)
Profit for the period		**598,117**	570,727	**1,781,875**	1,692,687
Attributed to:					
Owners of the Parent		**586,632**	560,837	**1,748,014**	1,664,470
Non-controlling interests		**11,485**	9,890	**33,861**	28,217
		598,117	570,727	**1,781,875**	1,692,687
Earnings per share (AED)	18	**3.31**	3.16	**9.85**	9.38

Condensed consolidated statement of other comprehensive income for the period from 1 January 2018 to 30 September 2018 (unaudited)

	For the three month period ended 30 September		For the nine month period ended 30 September	
	2018 AED '000	2017 AED '000	2018 AED '000	2017 AED '000
Profit for the period	**598,117**	570,727	**1,781,875**	1,692,687
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (equity instruments)	**(68,582)**	23,552	**(76,062)**	(9,185)
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	**(20,287)**	212,327	**(35,909)**	193,576
Changes in fair value of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI), net (debt instruments)	**(14,948)**	-	**(10,535)**	-
Cash flow hedges - fair value loss arising during the period	**-**	-	**-**	(7,624)
Total other comprehensive (loss) / profit for the period	**(103,817)**	235,879	**(122,506)**	176,767
Total comprehensive income for the period	**494,300**	806,606	**1,659,369**	1,869,454
Attributed to:				
Owners of the Parent	**495,791**	795,476	**1,647,421**	1,845,897
Non-controlling interests	**(1,491)**	11,130	**11,948**	23,557
	494,300	806,606	**1,659,369**	1,869,454

Mashreqbank PSC Group

Condensed consolidated statement of changes in equity for the period from 1 January 2018 to 30 September 2018 (unaudited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investment revaluation reserve AED'000	Cash flow hedging reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2017	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,310,198	18,757,636	728,009	19,485,645
Profit for the period	-	-	-	-	-	-	1,664,470	1,664,470	28,217	1,692,687
Other comprehensive income / (loss)	-	-	-	193,576	(4,525)	(7,624)	-	181,427	(4,660)	176,767
Total comprehensive (loss) / income for the period	-	-	-	193,576	(4,525)	(7,624)	1,664,470	1,845,897	23,557	1,869,454
Transfer to statutory and legal reserves	-	2,270	-	-	-	-	(2,270)	-	-	-
Payment of dividends (Note 15)	-	-	-	-	-	-	(710,123)	(710,123)	(16,677)	(726,800)
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	44,859	-	(44,859)	-	-	-
Balance at 30 September 2017	1,775,308	901,621	312,000	(104,986)	(207,949)	-	17,217,416	19,893,410	734,889	20,628,299

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

Condensed consolidated statement of changes in equity for the period from 1 January 2018 to 30 September 2018 (unaudited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investment revaluation reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	17,618,669	20,363,446	762,974	21,126,420
Changes on initial application of IFRS 9	-	-	-	-	-	(1,392,640)	(1,392,640)	(80,819)	(1,473,459)
Restated balance at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	16,226,029	18,970,806	682,155	19,652,961
Profit for the period	-	-	-	-	-	1,748,014	1,748,014	33,861	1,781,875
Other comprehensive loss	-	-	-	(28,899)	(71,694)	-	(100,593)	(21,913)	(122,506)
Total comprehensive (loss) / income for the period	-	-	-	(28,899)	(71,694)	1,748,014	1,647,421	11,948	1,659,369
Additional contribution to non-controlling interests	-	-	-	-	-	-	-	1,231	1,231
Transfer to statutory and legal reserves	-	2,256	-	-	-	(2,256)	-	-	-
Payment of dividends (Note 15)	-	-	-	-	-	(710,123)	(710,123)	(16,655)	(726,778)
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	13,201	(13,201)	-	-	-
Balance at 30 September 2018	1,775,308	903,877	312,000	(88,062)	(243,482)	17,248,463	19,908,104	678,679	20,586,783

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

Mashreqbank PSC Group

Condensed consolidated statement of cash flows for the period from 1 January 2018 to 30 September 2018 (unaudited)

	For the nine month period ended 30 September	
	2018	2017
	AED '000	AED '000
Cash flows from operating activities		
Profit before taxation for the period	**1,809,390**	1,762,695
Adjustments for:		
Depreciation of property and equipment	**113,840**	111,958
Allowance for impairment, net	**837,652**	916,240
Loss on disposal of property and equipment	**3,540**	279
Unrealised loss / (gain) on other financial assets held at Fair Value Through Profit or Loss (FVTPL)	**5,331**	(22,447)
Fair value adjustment of derivatives	**3,933**	3,987
Dividend income from financial assets measured at FVTOCI	**(15,465)**	(20,769)
Changes in operating assets and liabilities		
Decrease in deposits with central banks for regulatory purposes and certificate of deposits with the central banks	**2,543,615**	1,381,262
Decrease in deposits and balances due from banks maturing after three months	**1,311,822**	2,927,552
(Increase) / decrease in other financial assets measured at FVTPL	**(56,837)**	549,887
Increase in loans and advances measured at amortised cost	**(5,729,017)**	(2,979,465)
Increase in Islamic financing and investment products measured at amortised cost	**(2,673,008)**	(1,569,602)
(Increase) / decrease in other assets	**(3,548,820)**	888,045
Increase / (decrease) in deposits and balances due to banks	**305,890**	(2,411,472)
Increase / (decrease) in customers' deposits	**4,526,071**	(794,997)
Increase / (decrease) in Islamic customers' deposits	**1,646,092**	(146,451)
Increase in insurance and life assurance funds	**93,110**	82,194
Increase / (decrease) in other liabilities	**4,456,223**	(448,712)
Increase in medium term loans	**1,567,626**	1,516,446
Taxes paid	**(27,515)**	(70,008)
Net cash generated from operating activities	**7,173,473**	1,676,622
Cash flows from investing activities		
Purchase of property and equipment	**(179,416)**	(252,825)
Proceeds from sale of property and equipment	**2,309**	1,283
Net decrease in non-trading investments	**(290,828)**	(1,351,746)
Dividend income received from other financial assets measured at FVTOCI	**15,465**	20,769
Net cash used in investing activities	**(452,470)**	(1,582,519)

Condensed consolidated statement of cash flows for the period from 1 January 2018 to 30 September 2018 (un-audited) (continued)

	For the nine month period ended 30 September	
	2018	2017
	AED '000	AED '000
Cash flows from financing activities		
Dividends paid	**(726,778)**	(726,800)
Additional contribution to non-controlling interests	**1,231**	-
Net cash used in financing activities	**(725,547)**	(726,800)
Net increase / (decrease) in cash and cash equivalents	**5,995,456**	(632,697)
Net foreign exchange difference	**(28,899)**	193,576
Cash and cash equivalents at beginning of the period (Note 19)	**21,155,837**	20,313,437
Cash and cash equivalents at end of the period (Note 19)	**27,122,394**	19,874,316

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

1. General information

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

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates. At 30 September 2018, Mashreqbank PSC Group (the "Group") comprises of the Bank and the following direct subsidiaries:

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

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

2.1 New and revised IFRS applied on the condensed consolidated financial statements

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

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

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

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

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

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

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

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

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

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

  The impact of the IFRS 9 on the consolidated financial statements of the Group have been disclosed in note 3.10.

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 standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 16, 'Leases'** - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019
• **Amendment to IFRS 9, 'Financial instrument'** - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss.	1 January 2019

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

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

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRIC 23 Uncertainty over Income Tax Treatments** – The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers ➢ Whether tax treatments should be considered collectively ➢ Assumptions for taxation authorities ➢ The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates ➢ The effect of changes in facts and circumstances	1 January 2019
• **IFRS 17, 'Insurance contracts'** - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2021

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

3 Summary of significant accounting policies

3.1 Basis of preparation

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

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

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2017, other than the impact of the implementation of IFRS 9 which is disclosed in note 3.10.

These condensed consolidated interim financial information do not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017. In addition, results for the period from 1 January 2018 to 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

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

3.2 Basis of consolidation

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets

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

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

For financial assets or financial liabilities not at fair value through profit or loss, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and investment in debt instruments measured as FVTOCI, as described in Note 4(b), which results in accounting loss being recognized in profit or loss when an asset is newly originated.

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

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

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

Classification of financial assets

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 4(b). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

Equity instruments:

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

Equity instruments (continued)

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

Amortised cost and effective interest method

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

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

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

Note 4(b) provides more detail of how the expected credit loss allowance is measured.

(ii) Modification of loans

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

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

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

3 Summary of significant accounting policies (continued)

(ii) Modification of loans (continued)

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

(iii) Derecognition other than on a modification

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

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

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

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and criteria for derecognition are therefore not met.

3.4 Financial liabilities

Classification and subsequent measurement

Financial liabilities are initially recognised as fair value and subsequently measured at amortised cost, except for:

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

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

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

Derecognition

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.5 Financial guarantee contracts and loan commitments

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

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

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 4(b).

3.6 Foreign exchange gains and losses

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

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products

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

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

(i) Accounting policy

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

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

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

(ii) Revenue recognition policy

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

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

(iii) Islamic customers' deposits and distributions to depositors

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

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

3 Summary of significant accounting policies (continued)

3.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. 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 condensed consolidated statement of profit or loss in the period in which they arise.

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

3.9 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

3.10 Changes in accounting policies

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.10 Changes in accounting policies (continued)

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

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

	Loss allowance under IAS 39 / Provision under IAS 37 (Audited)	**Remeasure-ments (Unaudited)**	**ECL under IFRS 9 (Unaudited)**
	AED'000	AED'000	AED'000
On balance sheet			
Cash and balances with central bank	-	-	-
Deposits and balances due from banks	-	78,758	78,758
Other financial assets measured at fair value	-	-	-
Loans and advances measured at amortised cost	3,069,205	907,731	3,976,936
Islamic financing and investment products measured at amortised cost	117,127	21,877	139,004
Other financial assets measured at amortised cost	-	20,254	20,254
Other assets*	138,613	242,811	381,424
	3,324,945	1,271,431	4,596,376
Off balance sheet			
Provision (loans commitments, LCs and LGs)	-	202,028	202,028
Total	3,324,945	1,473,459	4,798,404

Further information on measurement of ECL is included in note 4.

* This includes share of non – controlling interest of AED 81 million

4 Credit risk

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

Credit risk is the single largest risk from the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a risk management department which reports regularly to the Risk Management Committee.

As at 30 September 2018, loans and advances and Islamic financing assets of AED 63,665 million have been classified under stage 1, AED 7,456 million have been classified under stage 2 and AED 2,559 million have been classified under stage 3, against which provisions amounting to AED 730 million, AED 1,577 million and AED 2,019 million have been recorded respectively. During the period, loans and advances and Islamic financing assets amounting to AED 3,534 million were transferred from stage 1 to stage 2, whereas AED 1,085 million were transferred from stage 2 to stage 1 and AED 434 million were transferred from stage 2 to stage 3.

As at 30 September 2018, off balance sheet exposures (loan commitments, LCs and LGs) of AED 48,532 million have been classified under stage 1, AED 4,391 million have been classified under stage 2 against which provisions amounting to AED 58 million and AED 76 million have been recorded respectively. During the period, off balance sheet exposures (loan commitments, LCs and LGs) amounting to AED 556 million were transferred from stage 1 to stage 2, whereas AED 1,832 million were transferred from stage 2 to stage 1.

As at 30 September 2018, financial assets (relating to a subsidiary) of AED 1,956 million has been classified under stage 1, AED 1,461 million has been classified under stage 2 and AED 2 million has been classified under stage 3, against which provision amounting to AED 1 million, AED 391 million and AED 2 million has been recorded respectively. There were no transfers between stages during the period ended 30 September 2018

As at 30 September 2018, the Group has recorded following ECL:

- AED 54 million in respect of deposits and balances due from banks;
- AED 63 million in respect of other financial assets measured at amortised cost;
- AED 408 million in respect of other assets; and
- AED 134 million in respect of off-balance sheet items.

The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investment products measured at amortised cost have been disclosed in notes 7 and 8 respectively.

4 Credit risk (continued)

Write-off policy

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

(a) Credit risk measurement

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model.

4 Credit risk (continued)

(a) Credit risk measurement (continued)

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

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated 50, 60, 70, 80 and 99, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful and Loss classifications. The Group's internal credit grades have also been mapped to external agency ratings for better comparison.

(b) Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Refer to note 4(c) for a description of how the Group defines credit-impaired and default.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Refer to note 4(c) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4(c) includes an explanation of how the Group has incorporated this in its ECL models.

4 Credit risk (continued)

(b) Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

Corporate loans:

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

- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings

Retail:

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

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

Treasury

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

Qualitative criteria:

Corporate Loans:

Feedback from the early warning signal framework of the Bank (along with factors such as adverse changes in business, financial or economic conditions).

4 Credit risk (continued)

(b) Expected credit loss measurement (continued)

Significant increase in credit risk (SICR) (continued)

Backstop:

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

(c) Definition of default and credit-impaired assets

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

In addition to 90 DPD, for the retail and corporate portfolio, the default definition used is consistent with the Basel Framework. According to the Basel II definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

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

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

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

4 Credit risk (continued)

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

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime. The lifetime PD term structure is developed by applying a macroeconomic adjustment to the Through The Cycle Credit Transition (TTCCT) matrix.

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

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

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

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type and are reviewed on a quarterly basis.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017 except as mentioned below.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4(c).

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

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

6 Other financial assets

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Other financial assets measured at fair value		
(i) **Financial assets measured at fair value through profit or loss (FVTPL)**		
Debt securities	**382,075**	437,727
Equities	**7,405**	3,770
Mutual and other funds	**616,230**	512,707
	1,005,710	954,204
(ii) **Financial assets measured at fair value through other comprehensive income (FVTOCI)**		
Debt securities	**536,229**	-
Equities	**544,654**	615,429
Mutual and other funds	**-**	10,912
	1,080,883	626,341
Total other financial assets measured at fair value (A)	**2,086,593**	1,580,545
(iii) **Financial assets measured at amortised cost**		
Debt securities	**12,326,301**	12,583,404
Less: Allowance for impairment	**(62,597)**	-
Total other financial assets measured at amortised cost (B)	**12,263,704**	12,583,404
Total other financial assets [(A)+(B)]	**14,350,297**	14,163,949

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balances within the U.A.E.	**2,567,515**	3,316,519
Balances outside the U.A.E.	**11,845,379**	10,847,430
	14,412,894	14,163,949
Less: Allowance for impairment	**(62,597)**	-
	14,350,297	14,163,949

6 Other financial assets (continued)

(c) During the period from 1 January 2018 to 30 September 2018 , dividends received from financial assets measured at FVTOCI amounting to AED 15 million (period ended 30 September 2017: AED 21 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(d) Other financial assets measured at FVTPL include AED 190 million (31 December 2017: AED 174 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and the fair value of these funds is based on the quoted market price.

(e) At 30 September 2018, certain financial assets measured at amortised cost and at FVTOCI included debt securities with an aggregate notional value of AED 1,174 million (fair value of AED 1,156 million) [31 December 2017: notional value of AED 584 million (fair value of AED 597 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 1,082 million (31 December 2017: AED 557 million).

7 Loans and advances measured at amortised cost

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Loans	**54,057,647**	49,882,585
Overdrafts	**4,503,188**	3,616,522
Credit cards	**2,356,088**	2,508,764
Others	**659,102**	455,499
	61,576,025	56,463,370
Less: Allowance for impairment	**(4,096,793)**	(3,069,205)
	57,479,232	53,394,165

7 Loans and advances measured at amortised cost (continued)

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Manufacturing	**5,840,197**	4,065,460
Construction	**10,313,105**	7,007,373
Trade	**10,698,148**	8,089,372
Transport and communication	**3,875,156**	3,687,823
Services	**6,844,486**	7,305,890
Financial institutions	**1,362,426**	1,250,621
Personal	**15,187,606**	15,956,457
Government and related enterprises	**7,454,901**	9,100,374
	61,576,025	56,463,370
Less: Allowance for impairment	**(4,096,793)**	(3,069,205)
	57,479,232	53,394,165

(c) *The movements in the allowance for impairment and interest in suspense of loans and advances measured at amortised cost are as follows;*

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**3,069,205**	3,220,533
Initial application of IFRS 9 (Note 3.10(a))	**907,731**	-
Impairment allowance for the period / year	**402,713**	792,976
Interest in suspense	**146,551**	166,445
Exchange rate and other adjustments	**2,266**	17,328
Written off during the period / year	**(431,673)**	(1,128,077)
Balance at the end of the period / year	**4,096,793**	3,069,205

(d) *The allowance for impairment includes a specific provision of AED 1,853 million for stage 3 loans of the Group.*

8 Islamic financing and investment products measured at amortised cost

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Financing		
Murabaha	**8,350,849**	5,699,170
Ijarah	**3,912,382**	3,900,129
	12,263,231	9,599,299
Investment		
Mudaraba	**18,317**	17,866
Wakala	**16,826**	30,278
	35,143	48,144
Total	**12,298,374**	9,647,443
Less: Unearned income	**(194,596)**	(190,849)
Allowance for impairment	**(229,509)**	(117,127)
	11,874,269	9,339,467

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Manufacturing	**540,892**	617,632
Construction	**3,008,175**	2,078,178
Trade	**1,563,657**	752,398
Transport and communication	**336,136**	256,280
Services	**3,258,536**	2,900,735
Financial institutions	**524,379**	464,216
Personal	**2,174,425**	2,124,242
Government and related enterprises	**892,174**	453,762
Total	**12,298,374**	9,647,443
Less: Unearned income	**(194,596)**	(190,849)
Allowance for impairment	**(229,509)**	(117,127)
	11,874,269	9,339,467

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

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**117,127**	55,245
Initial application of IFRS 9 (Note 3.10(a))	**21,827**	-
Impairment allowance for the period / year	**91,202**	57,320
(Reversal of profit in suspense) / profit suspensed	**(647)**	5,957
Written off during the year	**-**	(1,395)
Balance at the end of the period / year	**229,509**	117,127

(d) *The allowance for impairment includes a specific provision of AED 166 million for stage 3 Islamic financing and investment exposure of the Group.*

9 Investment properties

	30 September 2018 (un-audited) AED '000	31 December 2017 (audited) AED '000
At fair value		
Balance at beginning of the period / year	**517,691**	520,864
Disposals	**-**	(2,400)
Change in fair value during the period / year	**-**	(773)
Balance at the end of the period / year	**517,691**	517,691

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

The fair value of the investment properties as at 31 December 2017 were arrived at on the basis of a valuation carried out by independent, professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

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

10 Property and equipment

During the period, the Group purchased AED 179 million (period ended 30 September 2017: AED 253 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 5.8 million (period ended 30 September 2017: AED AED 1.6 million).

11 Deposits and balances due to banks

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

	30 September 2018 (un-audited) AED '000	31 December 2017 (audited) AED '000
Time	**4,950,676**	6,091,703
Demand	**2,429,578**	1,813,553
Overnight	**1,714,022**	1,408,174
	9,094,276	9,313,430

12 Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Current and other accounts	**33,974,788**	41,112,782
Saving accounts	**3,180,907**	3,371,737
Time deposits	**36,750,584**	24,895,689
	73,906,279	69,380,208

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Current and other accounts	**3,128,217**	3,382,619
Saving accounts	**149,026**	141,869
Time deposits	**5,049,725**	3,156,386
	8,326,968	6,680,874

14 Medium-term loans

	30 September 2018 (un-audited) AED '000	31 December 2017 (audited) AED '000
Medium term notes	**7,793,658**	6,226,032

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Year		
2018	**110,190**	5,017,966
2019	**6,003,385**	249,530
2020	**831,620**	436,970
2021	**293,840**	183,650
2022	**337,916**	337,916
2023	**216,707**	-
	7,793,658	6,226,032

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the period ended 30 September 2018 , new medium-term notes of AED 6.5 billion were issued and AED 4.9 billion of medium-term notes were redeemed.

15 Issued and paid up capital

As at 30 September 2018, 177,530,823 ordinary shares of AED 10 each (31 December 2017: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

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

16 Non-controlling interests

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	762,974	728,009
Initial application of IFRS 9 (Note 3.10(a))	(80,819)	-
Profit for the period / year	33,861	37,210
Other comprehensive (loss) / income for the period / year	(21,913)	15,295
Additional contribution received during the period	1,231	-
Dividends paid	(16,655)	(17,540)
Balance at the end of the period / year	678,679	762,974

17 General and administrative expenses

General and administrative expenses include senior management remuneration of AED 111 million for the period ended 30 September 2018 (period ended 30 September 2017: AED 103 million).

18 Earnings per share

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

	For the nine months period ended	
	30 September 2018 (un-audited)	30 September 2017 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	1,748,014	1,664,470
Weighted average number of shares in issue	177,530,823	177,530,823
Basic earnings per share (AED)	9.85	9.38

There were no potentially dilutive shares as of 30 September 2018 and 30 September 2017.

19 Cash and cash equivalents

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

	30 September 2018 (un-audited) AED'000	**31 December 2017 (audited) AED'000**	**30 September 2017 (un-audited) AED'000**
Cash on hand	**678,974**	1,150,663	911,728
Current accounts and other balances with central banks	**5,763,783**	6,958,948	3,287,465
Certificates of deposit maturing within 3 months	**4,500,000**	-	-
Deposits and balances due from banks maturing within 3 months	**16,179,637**	13,046,226	15,675,123
	27,122,394	21,155,837	19,874,316

20 Contingencies

The analysis is as follows:

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Guarantees	**40,696,785**	41,576,490
Letters of credit	**7,877,324**	5,384,712
	48,574,109	46,961,202

21 Derivative financial instruments

30 September 2018 (unaudited)

	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for trading:			
Forward foreign exchange contracts	279,716	275,197	55,268,937
Foreign exchange options (bought)	-	4,794	1,208,472
Foreign exchange options (sold)	4,812	-	1,027,864
Interest rate swaps	281,253	274,498	22,385,840
Credit default swaps	-	68	12,795
Futures contracts purchased (Customer)	-	265	108,842
Futures contracts sold (Customer)	-	2,114	158,527
Futures contracts sold (Bank)	265	201	162,057
Futures contracts purchased (Bank)	2,762	-	158,527
	568,808	557,137	80,491,861
Held as fair value hedges:			
Cross currency swaps	25,159	-	193,680
	593,967	557,137	80,685,541

30 September 2018 (unaudited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other assets				
Positive fair value of derivatives	-	593,967	-	593,967
Other liabilities				
Negative fair value of derivatives	-	557,137	-	557,137

21 Derivative financial instruments

31 December 2017 (audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000
Held for trading:			
Forward foreign exchange contract	186,209	141,491	47,528,180
Foreign exchange options (bought)	-	1,260	370,624
Foreign exchange options (sold)	1,264	-	338,348
Interest rate swaps	296,025	286,118	24,816,656
Credit default swaps	-	1,410	36,730
Futures contracts purchased (Customer)	64	-	207,696
Futures contracts sold (Customer)	-	7,671	370,666
Futures contracts sold (Bank)	1,108	64	970,018
Futures contracts purchased (Bank)	7,910	-	404,769
	492,580	438,014	75,043,687
Held as fair value hedges:			
Cross currency swaps	-	2,815	185,280
	492,580	440,829	75,228,967

31 December 2017 (audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other assets				
Positive fair value of derivatives	-	492,580	-	492,580
Other liabilities				
Negative fair value of derivatives	-	440,829	-	440,829

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

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

22 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated financial statements for the nine months period ended 30 September 2018 and 30 September 2017.

23 Related party transactions

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

(b) The Group is controlled by Al Ghurair Family members who own 87.99% (31 December 2017: 87.99%) of the issued and paid up capital. The remaining shares are widely held by other parties.

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Loans and advances measured at amortised cost	**3,442,954**	3,310,595
Customers' deposits	**1,182,385**	1,513,781
Letters of credit and guarantee	**1,507,076**	1,333,097

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

	30 September 2018 (un-audited) AED'000	30 September 2017 (un-audited) AED'000
Interest income	**109,936**	102,479
Interest expense	**4,940**	5,675
Other income, net	**28,131**	50,502

24 Segmental information

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

Reportable segments

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

24 Segmental information (continued)

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

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

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

3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

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

5. All Islamic banking products offered to customers are included under the **Islamic Banking** segment. These products are Ijarah Home Finance, Mudarabah Deposit,Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijarah Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit and Sukuk Advisory.

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

7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

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

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

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

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2018 to 30 September 2018 (unaudited)							
	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head office AED'000	Total AED'000
Net interest income and earnings from Islamic products	752,106	752,970	176,907	511,876	296,027	40,603	261,131	2,791,620
Other income, net	292,138	421,291	294,190	382,244	87,422	319,783	5,605	1,802,673
Total operating income	1,044,244	1,174,261	471,097	894,120	383,449	360,386	266,736	4,594,293
General and administrative expenses								(1,947,251)
Allowances for impairment								(837,652)
Profit before taxes								1,809,390
Tax expense								(27,515)
Profit for the period								1,781,875
Attributed to:								
Owners of the Parent								1,748,014
Non-controlling interests								33,861
								1,781,875
	30 September 2018 (unaudited)							
Segment Assets	36,686,520	13,082,326	17,803,402	33,325,053	12,756,478	4,459,480	19,332,579	137,445,838
Segment Liabilities	37,700,378	22,289,728	11,873,490	21,689,758	8,835,478	2,592,118	11,878,105	116,859,055

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

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January to 30 September 2017 (unaudited)							
	Domestic corporate	Domestic retail	Treasury & capital markets	International banking	Islamic banking	Insurance	Head office	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	655,903	765,999	55,646	572,737	253,781	32,994	334,361	2,671,421
Other income, net	309,144	383,266	426,036	361,040	82,621	290,384	(88,744)	1,763,747
Total operating income	965,047	1,149,265	481,682	933,777	336,402	323,378	245,617	4,435,168
General and administrative expenses								(1,756,233)
Allowances for impairment								(916,240)
Profit before taxes								1,762,695
Tax expense								(70,008)
Profit for the period								1,692,687
Attributed to:								
Owners of the Parent								1,664,470
Non-controlling interests								28,217
								1,692,687
	31 December 2017 (audited)							
Segment Assets	32,797,764	13,487,094	17,584,540	31,141,254	10,342,771	4,641,231	15,193,582	125,188,236
Segment Liabilities	32,527,369	25,491,243	9,253,428	19,433,187	7,412,273	2,437,497	7,506,819	104,061,816

24 Segmental information (continued)

Geographical information

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

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

	Operating income external customers *		**Non-current assets ****	
	For the nine month period ended			
	30 September 2018 (un-audited) AED'000	30 September 2017 (un-audited) AED'000	**30 September 2018 (un-audited) AED'000**	31 December 2017 (audited) AED'000
U.A.E.	**3,892,944**	3,607,830	**1,875,831**	1,823,162
Other Middle East countries	**496,143**	605,197	**28,291**	28,033
O.E.C.D.	**156,206**	179,678	**14,089**	7,862
Other countries	**49,000**	42,463	**11,918**	16,024
	4,594,293	4,435,168	**1,930,129**	1,875,081

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

** Non-current assets exclude financial instruments, deferred tax assets (if any), and assets arising from insurance contracts.

25 Fair value of financial instruments

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

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

25 Fair value of financial instruments (continued)

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2017.

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

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

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

25 Fair value of financial instruments (continued)

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

Financial assets	Fair value as at					
	30 September 2018	31 December 2017	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited) AED'000	(audited) AED'000				
Financial assets measured at FVTPL						
Quoted debt investments	**43,210**	119,098	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted equity investments	**7,185**	3,548	Level 1	Quoted bid prices in an active market	None	Not applicable
Mutual and other funds	**200,741**	174,165	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**282,094**	258,793	Level 2	Based on the recent similar transaction in market	None	Not applicable
Unquoted debt investments	**56,771**	59,836	Level 3	Based on discounted cash flow model	Interest rate	Changes in interest rate will impact the value of the Bond.

25 Fair value of financial instruments (continued)

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

Financial assets	Fair value as at					
	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Financial assets measured at FVTPL						
Mutual and other funds	**415,489**	338,542	Level 2	Net assets values of the funds	Net assets value	Higher the net asset value, higher the fair value.
Unquoted equity investments	**220**	222	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,005,710	954,204				

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

25 Fair value of financial instruments (continued)

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

Financial assets	Fair value as at					
	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Financial assets measured at FVTOCI						
Quoted equity investments	**376,263**	355,543	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted debt investments	**536,229**	-	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted equity investments	**168,391**	259,886	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	**-**	10,912	Level 1	Quoted bid prices in an active market	None	Not applicable
	1,080,883	626,341				
	2,086,593	1,580,545				

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

25 Fair value of financial instruments (continued)

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**60,058**	23,261
Purchases	-	129,617
Disposals / matured	-	(134,038)
Change in fair value	**(3,067)**	41,218
Balance at the end of the period / year	**56,991**	60,058

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**259,886**	348,294
Purchases	-	-
Disposals	**(7,555)**	(153,675)
Change in fair value	**(83,940)**	65,267
Balance at the end of the period / year	**168,391**	259,886

The investments classified under Level 3 category have been fair-valued based on information available for each investment. Based on the information available the valuation has been carried on net asset value or valuation provided by the portfolio managers.

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

Fair value of financial instruments measured at amortised cost

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

25 Fair value of financial instruments (continued)

Fair value of financial instruments measured at amortised cost (continued)

	Carrying amount	Fair value			
30 September 2018 (un-audited)	**AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets:					
Other financial assets measured at amortised cost	12,263,704	7,630,641	2,629,200	1,841,575	12,101,416
31 December 2017 (audited)					
Financial assets:					
Other financial assets measured at amortised cost	12,583,404	9,126,707	1,432,660	2,020,566	12,579,933

	Carrying amount	Fair value			
30 September 2018 (un-audited)	**AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial liabilities					
Medium-term notes	7,793,658	5,478,244	-	2,329,769	7,808,013
31 December 2017 (audited)					
Financial liabilities					
Medium-term notes	6,226,032	4,904,034	-	1,314,700	6,218,734

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

25 Fair value of financial instruments (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 30 September 2018 and 2017:

	Reflected in condensed consolidated statement of comprehensive income		Reflected in condensed consolidated statement of profit or loss	
	Favourable change	Unfavourable change	Favourable change	Unfavourable change
	(un-audited)			
	AED'000	AED'000	AED'000	AED'000
30 September 2018				
Other financial assets measured at fair value	**10,809**	**(10,809)**	**10,057**	**(10,057)**
30 September 2017				
Other financial assets measured at fair value	11,230	(11,230)	5,992	(5,992)

The majority of the derivative financial instruments are back to back and therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the condensed consolidated statement of profit or loss or condensed consolidated statement of comprehensive income.

26 Capital adequacy ratio

As per the Central bank regulation for Basel III, the capital requirement as at 30 September 2018 is 12.375% inclusive of capital conservation buffer.

The bank must comply with the following minimum requirement:

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

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

26 Capital adequacy ratio (continued)

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Capital base		
Tier 1 capital	**19,871,949**	19,800,859
Tier 2 capital	**1,406,098**	1,191,742
Total capital base (A)	**21,278,047**	20,992,601
Risk-weighted assets		
Credit risk	**112,487,850**	110,138,527
Market risk	**2,796,402**	1,744,305
Operational risk	**10,428,732**	10,428,732
Total risk-weighted assets (B)	**125,712,984**	122,311,564
Capital adequacy ratio (%) [(A)/(B) x 100]	**16.93%**	17.16%

27 Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 55 were approved by the Board of Directors on 21 October 2018.