

MASHREQBANK PSC GROUP

**Review report and interim
financial information for the period
from 1 January 2015 to 31 March 2015**

MASHREQBANK PSC GROUP

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Mashreqbank psc
Dubai
United Arab Emirates

We have reviewed the accompanying condensed consolidated statement of financial position of **Mashreqbank psc and its Subsidiaries** (the "Group") as at 31 March 2015 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flows for the three-month period then ended. Management of the Group is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 - 'Interim Financial Reporting' ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.


Deloitte & Touche (M.E.)



Anis F. Sadek
Partner
Registration No. 521
19 April 2015

**Condensed consolidated statement of financial position
as at 31 March 2015**

		31 March 2015 (un-audited) AED '000	31 December 2014 (audited) AED '000
ASSETS			
Cash and balances with central banks		14,936,218	15,159,258
Deposits and balances due from banks		16,119,318	14,211,256
Other financial assets measured at fair value	5	3,212,697	3,209,334
Loans and advances measured at amortised cost	6	50,850,126	52,246,614
Islamic financing and investment products measured at amortised cost	7	5,817,418	5,799,094
Other financial assets measured at amortised cost	5	7,374,696	7,579,700
Other assets		7,013,519	6,011,997
Goodwill		18,271	26,588
Investment properties	8	490,317	490,317
Property and equipment	9	1,097,725	1,106,120
Total assets		106,930,305	105,840,278
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks	10	6,099,741	8,224,533
Repurchase agreements with banks		578,502	623,036
Customers' deposits	11	65,328,398	63,305,377
Islamic customers' deposits	12	5,837,784	5,182,766
Insurance and life assurance funds		1,688,117	1,655,139
Other liabilities		6,743,961	5,922,634
Medium-term loans	13	3,818,468	4,008,243
Total liabilities		90,094,971	88,921,728
Equity			
Issued and paid up capital	14	1,775,308	1,690,770
Statutory and legal reserves		852,582	852,582
General reserve		312,000	312,000
Cumulative translation adjustment		(65,645)	(53,315)
Investments revaluation reserve		(169,240)	(152,150)
Retained earnings		13,389,438	13,512,995
Equity attributable to owners of the Parent		16,094,443	16,162,882
Non-controlling interests	15	740,891	755,668
Total equity		16,835,334	16,918,550
Total liabilities and equity		106,930,305	105,840,278


Abdulla Ahmad Al Ghurair
Chairman


Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

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

**Condensed consolidated income statement (un-audited)
for the period from 1 January 2015 to 31 March 2015**

	Note	3 months ended 31 March 2015 (un-audited) AED '000	3 months ended 31 March 2014 (un-audited) AED '000
Interest income		997,079	864,893
Income from Islamic financing and investment products		52,979	63,515
Total interest income and income from Islamic financing and investment products		1,050,058	928,408
Interest expense		(235,131)	(231,053)
Distribution to depositors – Islamic products		(11,284)	(11,656)
Net interest income and net income from Islamic products		803,643	685,699
Fee and commission income		759,938	820,792
Fee and commission expenses		(333,014)	(383,680)
Net fee and commission income		426,924	437,112
Net investment income		45,743	66,603
Other income, net		215,373	192,128
Operating income		1,491,683	1,381,542
General and administrative expenses	16	(604,610)	(524,243)
Allowances for impairment, net		(196,079)	(251,467)
Profit before taxes		690,994	605,832
Overseas income tax expense		(22,925)	(12,847)
Profit for the period		668,069	592,985
Attributed to:			
Owners of the Parent		651,134	575,172
Non-controlling interests		16,935	17,813
		668,069	592,985
Earnings per share (AED)	17	3.67	3.24

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

**Condensed consolidated statement of comprehensive income (un-audited)
for the period from 1 January 2015 to 31 March 2015**

	3 months ended 31 March 2015 (un-audited) AED '000	3 months ended 31 March 2014 (un-audited) AED '000
Profit for the period	668,069	592,985
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair value of financial assets measured at FVTOCI, net	(45,858)	14,593
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Cumulative translation adjustment	(12,330)	2,408
Total other comprehensive (loss)/income for the period	(58,188)	17,001
Total comprehensive income for the period	609,881	609,986
Attributed to:		
Owners of the Parent	607,869	585,678
Non-controlling interests	2,012	24,308
	609,881	609,986

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

**Condensed consolidated statement of changes in equity
for the period from 1 January 2015 to 31 March 2015**

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	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 2014 (audited)	1,690,770	850,172	312,000	(42,113)	(157,309)	11,793,461	14,446,981	673,547	15,120,528
Profit for the period	-	-	-	-	-	575,172	575,172	17,813	592,985
Other comprehensive income	-	-	-	2,408	8,098	-	10,506	6,495	17,001
Total comprehensive income for the period	-	-	-	2,408	8,098	575,172	585,678	24,308	609,986
Payment of dividends (Note 14)	-	-	-	-	-	(676,308)	(676,308)	(16,789)	(693,097)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	7,267	(7,267)	-	-	-
Balance at 31 March 2014 (un-audited)	1,690,770	850,172	312,000	(39,705)	(141,944)	11,685,058	14,356,351	681,066	15,037,417
Balance at 1 January 2015 (audited)	1,690,770	852,582	312,000	(53,315)	(152,150)	13,512,995	16,162,882	755,668	16,918,550
Profit for the period	-	-	-	-	-	651,134	651,134	16,935	668,069
Other comprehensive income	-	-	-	(12,330)	(30,935)	-	(43,265)	(14,923)	(58,188)
Total comprehensive income for the period	-	-	-	(12,330)	(30,935)	651,134	607,869	2,012	609,881
Issue of bonus shares (Note 14)	84,538	-	-	-	-	(84,538)	-	-	-
Payment of dividends (Note 14)	-	-	-	-	-	(676,308)	(676,308)	(16,789)	(693,097)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	13,845	(13,845)	-	-	-
Balance at 31 March 2015 (un-audited)	1,775,308	852,582	312,000	(65,645)	(169,240)	13,389,438	16,094,443	740,891	16,835,334

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

**Condensed consolidated statement of cash flows (un-audited)
for the period from 1 January 2015 to 31 March 2015**

	3 months ended 31 March 2015 (un-audited) AED '000	3 months ended 31 March 2014 (un-audited) AED '000
Cash flows from operating activities		
Profit for the period	668,069	592,985
Adjustments for:		
Depreciation of property and equipment	35,215	35,696
Allowances for impairment, net	196,079	251,467
Loss on disposal of property and equipment	2,519	306
Fair value adjustment of other financial assets measured at FVTPL	(5,062)	(31,440)
Fair value adjustment of derivatives	2,523	7,076
Dividend income from other financial assets measured at FVTOCI	(10,464)	(8,768)
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with central banks for regulatory purposes and certificate of deposits with the central banks	72,778	(2,351,904)
Decrease in deposits and balances due from banks maturing after three months	822,003	324,579
Increase in other financial assets measured at FVTPL	(52,380)	(253,306)
Decrease/(increase) in loans and advances measured at amortized cost	1,273,990	(3,405,577)
(Increase)/decrease in Islamic financing and investment products measured at amortized cost	(90,521)	324,223
Increase in other assets	(997,112)	(511,716)
Decrease/(increase) in deposits and balances due to banks	(2,124,792)	1,070,317
Increase in customers' deposits	2,023,021	3,167,584
Increase in Islamic customers' deposits	655,018	138,811
Increase in insurance and life assurance funds	32,978	170,759
Increase/(decrease) in other liabilities	821,327	(267,385)
(Decrease)/increase in medium-term loans	(189,775)	241,770
Decrease in repurchase agreements with banks	(44,534)	(14,855)
Net cash generated from/(used in) operating activities	3,090,880	(519,378)
Cash flows from investing activities		
Purchase of property and equipment	(56,367)	(19,959)
Purchase of investment property	-	(2,425)
Proceeds from sale of property and equipment	27,028	153
Net decrease/(increase) in non-trading investments	213,225	(266,922)
Dividend income received from other financial assets measured at FVTOCI	10,464	8,768
Net cash generated from/(used in) investing activities	194,350	(280,385)
Cash flows from financing activities		
Dividend paid	(693,097)	(693,097)
Net cash used in financing activities	(693,097)	(693,097)
Net increase/(decrease) in cash and cash equivalents	2,592,133	(1,492,860)
Net foreign exchange difference	(12,330)	2,408
Cash and cash equivalents at beginning of the period (Note 18)	16,492,532	14,579,255
Cash and cash equivalents at end of the period (Note 18)	19,072,335	13,088,803

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015**

1. General information

Mashreqbank psc (the “Bank”) was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank 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 31 March 2015, Mashreqbank psc Group (the “Group”) comprises of the Bank and the following direct subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
Oman Insurance Company (PSC) Group	United Arab Emirates	63.65	63.65	Insurance
Mindscape Information Technology L.L.C.	United Arab Emirates	99.00	99.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle
Bracebridge Limited	British Virgin Islands	*	100.00	Special purpose vehicle
Orriston Limited	British Virgin Islands	*	100.00	Special purpose vehicle

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of effective control.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

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

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated financial statements

The following revised IFRS, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these condensed consolidated financial statements. The application of these revised and new IFRSs has not had any material impact on the amounts reported for the current period and prior year but may affect the accounting for future transactions or arrangements.

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

- Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

1 July 2014

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

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

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

- Finalised version of IFRS 9 (IFRS 9 *Financial Instruments* (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.

1 January 2018

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

- IFRS 14 *Regulatory Deferral Accounts* issued in January 2014 specifies the financial reporting requirements for ‘regulatory deferral account balance’ that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.

1 January 2016

- IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

1 January 2017

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

**2 Application of new and revised International Financial Reporting Standards (“IFRSs”)
(continued)**

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19.	1 July 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of <i>Interests in Joint Operations</i> .	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity’s separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

3. Summary of significant accounting policies

3.1 Basis of preparation

The condensed consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2014.

These condensed consolidated financial statements do not include all the information and disclosure required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2014. In addition, results for the period from 1 January 2015 to 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

3.2 Basis of consolidation

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

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

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.

3.3 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 2014.

4. Critical accounting judgements and key sources of estimation of uncertainty

The preparation of condensed consolidated financial statements requires management to make judgements, 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 judgements 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 2014.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

5. Other financial assets

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	1,745,267	1,671,331
Equities	523	8,029
Mutual and other funds	731,201	740,189
	<u>2,476,991</u>	<u>2,419,549</u>
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
Equities	698,171	752,713
Mutual and other funds	37,535	37,072
	<u>735,706</u>	<u>789,785</u>
Total other financial assets measured at fair value	<u>3,212,697</u>	<u>3,209,334</u>
(iii) Financial assets measured at amortised cost		
Debt securities	7,374,696	7,579,700
Total other financial assets	<u>10,587,393</u>	<u>10,789,034</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

5. Other financial assets (continued)

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Balances within the U.A.E.	3,123,144	2,835,784
Balances outside the U.A.E.	7,464,249	7,953,250
	<u>10,587,393</u>	<u>10,789,034</u>

(c) During the period, dividends received from financial assets measured at FVTOCI amounting to AED 10 million (period ended 31 March 2014: AED 9 million) were recognized in the condensed consolidated income statement.

(d) Other financial assets measured at FVTOCI includes AED 38 million (31 December 2014: AED 37 million) which represents investment in Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and the fair value of the fund is based on quoted market prices.

6. Loans and advances measured at amortised cost

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Loans	46,133,917	47,483,184
Overdrafts	4,761,364	4,764,148
Credit cards	2,891,643	2,827,635
Other	352,195	308,240
	<u>54,139,119</u>	<u>55,383,207</u>
Less: Allowance for impairment	(3,288,993)	(3,136,593)
	<u>50,850,126</u>	<u>52,246,614</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

6. Loans and advances measured at amortised cost (continued)

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Manufacturing	3,776,061	4,161,144
Construction	2,864,586	3,122,124
Trade	13,047,386	13,659,164
Transport and communication	3,051,543	2,999,489
Services	6,491,558	6,396,746
Financial institutions	1,088,714	1,521,381
Personal	15,617,643	15,462,884
Government and related enterprises	8,089,204	7,948,931
Other	112,424	111,344
	<u>54,139,119</u>	<u>55,383,207</u>
Less: Allowance for impairment	<u>(3,288,993)</u>	<u>(3,136,593)</u>
	<u><u>50,850,126</u></u>	<u><u>52,246,614</u></u>

(c) The movements in the allowance for impairment and interest in suspense of loans and advances measured at amortised cost during the current period and prior year were as follows:

	3 months ended 31 March 2015 (un-audited) AED '000	Year ended 31 December 2014 (audited) AED '000
Balance at the beginning of the period/year	3,136,593	3,057,721
Impairment allowance for the period/year	131,174	842,635
Interest in suspense	22,688	92,223
Recoveries during the period/year	(1,462)	(63,491)
Written off during the period/year	-	(792,495)
	<u>3,288,993</u>	<u>3,136,593</u>
Balance at the end of the period/year	<u><u>3,288,993</u></u>	<u><u>3,136,593</u></u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

7. Islamic financing and investment products measured at amortised cost

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
<u>Financing</u>		
Murabaha	3,707,566	3,599,799
Ijara	1,461,045	1,432,430
	<hr/> 5,168,611 <hr/>	<hr/> 5,032,229 <hr/>
<u>Investment</u>		
Mudaraba	102,520	217,100
Wakala	806,300	831,539
	<hr/> 908,820 <hr/>	<hr/> 1,048,639 <hr/>
Total	6,077,431	6,080,868
Less: Unearned income	(146,905)	(233,760)
Allowance for impairment	(113,108)	(48,014)
	<hr/> 5,817,418 <hr/>	<hr/> 5,799,094 <hr/>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

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

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Manufacturing	645,973	644,672
Construction	472,625	470,577
Trade	1,760,773	1,663,879
Transport and communication	140,079	104,632
Services	1,233,786	1,322,078
Financial institutions	13,526	13,308
Personal	1,302,966	1,295,420
Government and related enterprises	507,703	566,302
Total	6,077,431	6,080,868
Less: Unearned income	(146,905)	(233,760)
Allowance for impairment	(113,108)	(48,014)
	5,817,418	5,799,094

- (c) The movement in the allowance for impairment of Islamic financing and investment products measured at amortised cost during the current period and prior year were as follows:

	3 months ended 31 March 2015 (un-audited) AED '000	Year ended 31 December 2014 (audited) AED '000
Balance at the beginning of the period/year	48,014	39,192
Impairment allowance for the period/year	65,344	7,188
(Reversal of)/ profit in suspense	(250)	1,634
Balance at the end of the period/year	113,108	48,014

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

8. Investment properties

	31 March 2015 (un-audited) AED '000	31 December 2014 (audited) AED '000
<i>At fair value</i>		
Balance at beginning of the period/year	490,317	472,959
Purchases	-	6,415
Change in fair value during the period/year	-	82,406
Disposals during the period/year	-	(71,463)
	<hr/> 490,317 <hr/>	<hr/> 490,317 <hr/>

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

The fair value of investment properties as at 31 December 2014 has been arrived at on the basis of a valuation carried out by independent, professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

There has been no change to the valuation methods used during the period/year.

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

9. Property and equipment

During the period, the Group purchased approximately AED 56 million (period ended 31 March 2014: AED 20 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 29 million (period ended 31 March 2014: AED 1 million) for proceeds of AED 27 million (period ended 31 March 2014: AED 0.2 million).

10. Deposits and balances due to banks

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

	31 March 2015 (un-audited) AED '000	31 December 2014 (audited) AED '000
Time	2,662,704	5,439,530
Demand	1,564,581	1,356,613
Overnight	1,872,456	1,428,390
	<hr/> 6,099,741 <hr/>	<hr/> 8,224,533 <hr/>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

11. Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Current and other accounts	40,947,936	36,388,965
Saving accounts	3,394,435	3,440,844
Time deposits	20,986,027	23,475,568
	<u>65,328,398</u>	<u>63,305,377</u>

12. Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Current and other accounts	3,160,091	2,470,438
Saving accounts	237,174	217,218
Time deposits	2,440,519	2,495,110
	<u>5,837,784</u>	<u>5,182,766</u>

13. Medium-term loans

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
Medium term notes	1,981,968	2,171,743
Syndicated loan	1,836,500	1,836,500
	<u>3,818,468</u>	<u>4,008,243</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

13. Medium-term loans (continued)

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

Due date	Interest rate	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
20 February 2015	1.450%	-	183,650
12 June 2015	1.300%	183,650	183,650
19 June 2015	3 month Libor + 0.900%	36,730	36,730
27 November 2015	1.330 %	91,825	91,825
24 February 2016	3 month Libor + 1.450%	110,190	110,190
16 May 2016	3 month Euribor + 1.250%	40,949	46,000
25 June 2016	2.060%	36,730	36,730
7 July 2016	3 month Libor + 1.300%	93,294	93,294
5 August 2016	3 month Libor + 0.850%	97,717	95,651
18 January 2017	3 month Libor + 1.000%	91,825	91,825
24 January 2017	3 months Libor +1.125%	1,020,726	1,020,726
6 February 2017	2.750%	123,236	126,376
6 June 2017	3 month Libor + 1.750%	55,096	55,096
		1,981,968	2,171,743

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

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

During the period ended 31 March 2015, no new medium-term notes were issued and AED 184 million of medium-term notes were redeemed.

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

14. Issued and paid up capital and dividends

As at 31 March 2015, 177,530,823 ordinary shares of AED 10 each (31 December 2014: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 22 February 2015, the shareholders approved a stock dividend in respect of the year ended 31 December 2014 at 5% of the issued and paid up capital amounting to AED 84.53 million (2013: AED Nil) and a cash dividend at 40% (2013: 40%) of issued and paid up capital amounting to AED 676 million (2013: AED 676 million). Accordingly, the authorized and issued share capital was increased by the amount of stock dividends.

15. Non-controlling interests

	3 months ended 31 March 2015 (un-audited) AED'000	Year ended 31 December 2014 (audited) AED'000
Balance at the beginning of the period/year	755,668	673,547
Profit for the period/year	16,935	85,011
Other comprehensive (loss)/income for the period/year	(14,923)	3,810
Dividends paid	(16,789)	(16,789)
Additional contribution attributable to the non-controlling interests*	-	10,089
Balance at the end of the period/year	<u>740,891</u>	<u>755,668</u>

* Additional contribution was made in 2014 by the non-controlling interest shareholders of Dubai Group Sigorta A.Ş. (a subsidiary of Oman Insurance Company (PSC) Group).

16. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 40 million for the period from 1 January 2015 to 31 March 2015 (period ended 31 March 2014: AED 36 million).

17. Earnings per share

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

17. Earnings per share (continued)

	3 months ended 31 March 2015 (un-audited)	3 months ended 31 March 2014 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	651,134	575,172
Weighted average number of shares in issue	177,530,823	177,530,823
Basic earnings per share (AED)	3.67	3.24

There were no potentially dilutive shares as at 31 March 2015 and 31 March 2014.

18. Cash and cash equivalents

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

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000	31 March 2014 (un-audited) AED'000
Cash on hand	783,126	1,077,927	603,172
Current accounts and other balances with central banks	5,525,910	5,381,371	1,254,312
Deposits and balances due from banks maturing within 3 months	12,763,299	10,033,234	11,231,319
	19,072,335	16,492,532	13,088,803

19. Contra accounts

The analysis of the Group's contra accounts is as follows:

	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
<i>Contra accounts (memoranda)</i>		
Guarantees	41,818,327	41,555,387
Letters of credit	5,965,170	6,425,015
	47,783,497	47,980,402

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

20. Derivative financial instruments

	31 March 2015 (un-audited)		
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	548,209	582,443	47,993,683
Foreign exchange options (bought)	-	120,961	10,097,056
Foreign exchange options (sold)	120,932	-	10,250,482
Interest rate swaps	777,511	777,819	27,580,876
Credit default swaps	120	-	10,000
Futures contracts purchased (Customer)	1,193	-	68,952
Futures contracts sold (Customer)	-	873	39,921
Futures contracts sold (Bank)	-	1,193	68,952
Futures contracts purchased (Bank)	873	-	39,921
	1,448,838	1,483,289	96,149,843

	31 December 2014 (audited)		
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	300,772	306,367	40,529,804
Foreign exchange options (bought)	-	48,329	5,834,270
Foreign exchange options (sold)	48,366	-	5,833,191
Interest rate swaps	718,306	716,915	27,577,008
Credit default swaps	632	-	10,000
Equity options	1,040	-	10,117
Futures contracts purchased (Customer)	-	2,921	87,526
Futures contracts sold (Customer)	1,400	-	142,308
Futures contracts sold (Bank)	2,921	-	87,526
Futures contracts purchased (Bank)	-	1,400	142,308
	1,073,437	1,075,932	80,254,058

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

21. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three month periods ended 31 March 2015 and 2014.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

22. Related party transactions

- (a) Certain “related parties” (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family members who own 87.73% (31 December 2014: 87.31%) 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:

	31 March 2015 (un-audited) AED’000	31 December 2014 (audited) AED’000
Loans and advances measured at amortised cost	<u>1,451,271</u>	<u>1,413,188</u>
Customers’ deposits	<u>1,368,171</u>	<u>1,373,672</u>
Letters of credit and guarantees	<u>1,413,585</u>	<u>1,901,508</u>

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

	3 months ended 31 March 2015 (un-audited) AED ’000	3 months ended 31 March 2014 (un-audited) AED ’000
Interest income	<u>15,601</u>	<u>21,546</u>
Interest expense	<u>3,176</u>	<u>4,061</u>
Other income, net	<u>29,296</u>	<u>40,667</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

23. Segmental information

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

Reportable segments

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies. 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 financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

23. Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		Non-current assets **	
	3 months ended 31 March 2015 (un-audited) AED'000	3 months ended 31 March 2014 (un-audited) AED'000	31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
U.A.E.	1,254,444	1,194,377	1,556,109	1,562,794
Other Middle East countries	185,828	133,764	27,784	29,226
O.E.C.D.	38,923	39,123	2,548	2,722
Other countries	12,488	14,278	19,872	28,283
	<u>1,491,683</u>	<u>1,381,542</u>	<u>1,606,313</u>	<u>1,623,025</u>

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

24. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

24. Fair value of financial instruments (continued)

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

31 March 2015 (un-audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets measured at fair value</i>				
Other financial assets measured at FVTPL				
- Debt securities	413,647	1,308,257	23,363	1,745,267
- Equities	-	-	523	523
- Mutual and other funds	371,679	-	359,522	731,201
Other financial assets measured at FVTOCI				
- Equities	478,125	27,312	192,734	698,171
- Mutual and other funds	37,535	-	-	37,535
Total	1,300,986	1,335,569	576,142	3,212,697
<i>Other assets</i>				
Positive fair value of derivatives	548,209	900,629	-	1,448,838
<i>Other liabilities</i>				
Negative fair value of derivatives	582,443	900,846	-	1,483,289

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

24. Fair value of financial instruments (continued)

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

31 December 2014

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets measured at fair value</i>				
Other financial assets measured at FVTPL				
- Debt securities	342,969	1,305,177	23,185	1,671,331
- Equities	7,478	-	551	8,029
- Mutual and other funds	369,949	-	370,240	740,189
Other financial assets measured at FVTOCI				
- Equities	511,475	26,591	214,647	752,713
- Mutual and other funds	37,072	-	-	37,072
Total	1,268,943	1,331,768	608,623	3,209,334
<i>Other assets</i>				
Positive fair value of derivatives	300,772	772,665	-	1,073,437
<i>Other liabilities</i>				
Negative fair value of derivatives	306,367	769,565	-	1,075,932

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

24. Fair value of financial instruments (continued)

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

	31 March 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
Balance at the beginning of the period/year	214,647	358,448
Purchases	258	1,006
Cost of sales	(20,054)	(14,182)
Transfer in from Level 1	-	(83,656)
Change in fair value	(2,117)	(46,969)
Balance at the end of the period/year	192,734	214,647

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

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

Fair value of financial instruments measured at amortised cost

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

	Carrying Amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
31 March 2015					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	7,374,696	5,829,563	-	1,580,191	7,409,754
31 December 2014					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	7,579,700	5,667,770	54,255	1,894,466	7,616,491

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

24. Fair value of financial instruments (continued)

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

	Carrying amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
31 March 2015					
<i>Financial liabilities</i>					
Medium-term notes	1,981,968	1,555,998	-	435,328	1,991,326
31 December 2014					
<i>Financial liabilities</i>					
Medium-term notes	2,171,743	1,707,766	-	434,861	2,142,627

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 March 2015 and 2014:

	Reflected in condensed consolidated income statement		Reflected in condensed consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 March 2015				
Other financial assets measured at fair value	247,699	(247,699)	73,571	(73,571)
31 March 2014				
Other financial assets measured at fair value	213,157	(213,157)	76,838	(76,838)

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2015 to 31 March 2015 (continued)**

25. Capital adequacy ratio

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

		31 March 2015 (un-audited) AED'000	31 December 2014 (audited) AED'000
<i>Capital base</i>			
Tier 1 capital		16,229,532	16,276,609
Tier 2 capital		1,377,432	1,449,620
Total capital base	(A)	17,606,964	17,726,229
<i>Risk-weighted assets</i>			
Credit risk		95,607,551	95,599,856
Market risk		3,427,863	2,982,151
Operational risk		9,354,739	8,046,174
Total risk-weighted assets	(B)	108,390,153	106,628,181
Risk asset ratio (%) [(A)/(B) x 100]		16.24%	16.62%

26. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 32 were approved by the Board of Directors on 19 April 2015.