

MASHREQBANK PSC GROUP

**Review report and interim
financial information for the period
from 1 January 2014 to 31 March 2014**

MASHREQBANK PSC GROUP

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of
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 2014 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. The 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
30 April 2014**

**Condensed consolidated statement of financial position
as at 31 March 2014**

		31 March 2014 (un-audited) AED '000	31 December 2013 (audited) AED '000
	Note		
ASSETS			
Cash and balances with central banks		10,602,439	10,830,218
Deposits and balances due from banks		13,711,493	12,946,841
Other financial assets measured at fair value	5	2,899,949	2,589,310
Loans and advances measured at amortised cost	6	47,432,087	44,280,339
Islamic financing and investment products measured at amortised cost	7	5,828,935	6,150,796
Other financial assets measured at amortised cost	5	5,640,762	5,385,140
Interest receivable and other assets		6,376,076	5,871,436
Goodwill		26,588	26,588
Investment properties	8	475,384	472,959
Property and equipment	9	1,085,091	1,101,287
Total assets		94,078,804	89,654,914
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks		6,151,366	5,081,049
Repurchase agreements with banks		1,030,241	1,045,096
Customers' deposits		57,325,732	54,158,148
Islamic customers' deposits		4,584,342	4,445,531
Insurance and life assurance funds		1,597,758	1,426,999
Interest payable and other liabilities		5,572,255	5,839,640
Medium-term loans	10	2,779,693	2,537,923
Total liabilities		79,041,387	74,534,386
Equity			
Issued and paid up capital	11	1,690,770	1,690,770
Statutory and legal reserves		850,172	850,172
General reserve		312,000	312,000
Cumulative translation adjustment		(39,705)	(42,113)
Investments revaluation reserve		(141,944)	(157,309)
Retained earnings		11,685,058	11,793,461
Equity attributable to shareholders of the Parent		14,356,351	14,446,981
Non-controlling interests		681,066	673,547
Total equity		15,037,417	15,120,528
Total liabilities and equity		94,078,804	89,654,914

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


Abdulla Ahmad Al Ghurair
Chairman


Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

**Condensed consolidated income statement (un-audited)
for the period from 1 January 2014 to 31 March 2014**

	Note	3 months ended 31 March 2014 (un-audited) AED '000	3 months ended 31 March 2013 (un-audited) AED '000
Interest income		864,893	660,805
Income from Islamic financing and investment products		63,515	60,384
Total interest income and income from Islamic financing and investment products		928,408	721,189
Interest expense		(231,053)	(216,207)
Distribution to depositors – Islamic products		(11,656)	(18,767)
Net interest income and net income from Islamic products		685,699	486,215
Fee and commission income		820,792	652,086
Fee and commission expenses		(383,680)	(324,185)
Net fee and commission income		437,112	327,901
Net investment income		66,603	51,921
Other income, net		192,128	251,583
Operating income		1,381,542	1,117,620
General and administrative expenses	12	(524,243)	(486,688)
Allowances for impairment, net		(251,467)	(170,726)
Profit before taxes		605,832	460,206
Overseas income tax expense		(12,847)	(11,990)
Profit for the period		592,985	448,216
Attributed to:			
Shareholders of the parent		575,172	425,321
Non-controlling interests		17,813	22,895
		592,985	448,216
Earnings per share (AED)	13	3.40	2.52

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 2014 to 31 March 2014**

	3 months ended 31 March 2014 (un-audited) AED '000	3 months ended 31 March 2013 (un-audited) AED '000
Profit for the period	592,985	448,216
Other comprehensive income items		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair value of financial assets measured at FVTOCI, net	14,593	(7,724)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Cumulative translation adjustment	2,408	(4,799)
Total other comprehensive income /(loss) for the period	17,001	(12,523)
Total comprehensive income for the period	609,986	435,693
Attributed to:		
Shareholders of the parent	585,678	418,922
Non-controlling interests	24,308	16,771
	609,986	435,693

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 2014 to 31 March 2014**

	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 shareholders of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2013 (audited)	1,690,770	848,385	312,000	(32,076)	(163,794)	10,579,527	13,234,812	585,443	13,820,255
Profit for the period	-	-	-	-	-	425,321	425,321	22,895	448,216
Other comprehensive loss	-	-	-	(4,799)	(1,600)	-	(6,399)	(6,124)	(12,523)
Total comprehensive income for the period	-	-	-	(4,799)	(1,600)	425,321	418,922	16,771	435,693
Payment of dividends (Note 11)	-	-	-	-	-	(642,493)	(642,493)	(8,395)	(650,888)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(15,418)	15,418	-	-	-
Balance at 31 March 2013 (un-audited)	1,690,770	848,385	312,000	(36,875)	(180,812)	10,377,773	13,011,241	593,819	13,605,060
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 11)	-	-	-	-	-	(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

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 2014 to 31 March 2014**

	3 months ended 31 March 2014 (un-audited) AED '000	3 months ended 31 March 2013 (un-audited) AED '000
Cash flows from operating activities		
Profit for the period	592,985	448,216
Adjustments for:		
Depreciation of property and equipment	35,696	35,816
Allowances for impairment, net	251,467	170,726
Loss on sale of property and equipment	306	1,751
Fair value adjustment of other financial assets measured at FVTPL	(31,440)	(9,584)
Fair value adjustment of derivatives	7,076	(2,640)
Dividend income from other financial assets measured at FVTOCI	(8,768)	(14,181)
Changes in operating assets and liabilities		
Increase in deposits with central banks for regulatory purposes and certificate of deposits with the central banks	(2,351,904)	(1,063,891)
Decrease in deposits and balances due from banks maturing after three months	324,579	179,173
Increase in other financial assets carried at FVTPL	(253,306)	(380,913)
Increase in loans and advances measured at amortized cost	(3,405,577)	(1,501,262)
Decrease/(increase) in Islamic financing and investment products measured at amortized cost	324,223	(3)
(Increase)/decrease in interest receivable and other assets	(511,716)	91,218
Increase/(decrease) in deposits and balances due to banks	1,070,317	(498,298)
Increase in customers' deposits	3,167,584	3,703,009
Increase/(decrease) in Islamic customers' deposits	138,811	(1,990,999)
Increase in insurance and life assurance funds	170,759	129,741
(Decrease)/increase in interest payable and other liabilities	(267,385)	284,496
Increase in medium-term loans	241,770	-
Decrease in repurchase agreements with banks	(14,855)	(1,621)
Net cash used in operating activities	(519,378)	(419,246)
Cash flows from investing activities		
Purchase of property and equipment	(19,959)	(9,645)
Purchase of investment property	(2,425)	-
Proceeds from sale of property and equipment	153	3,304
Net increase in non-trading investments	(266,922)	(29,602)
Dividend income from financial assets measured at FVTOCI	8,768	14,181
Net cash used in from investing activities	(280,385)	(21,762)
Cash flows from financing activities		
Dividend paid	(693,097)	(650,888)
Net cash used in financing activities	(693,097)	(650,888)
Net decrease in cash and cash equivalents	(1,492,860)	(1,091,896)
Net foreign exchange difference	2,408	(4,799)
Cash and cash equivalents at beginning of the period	14,579,255	12,509,079
Cash and cash equivalents at end of the period (Note 14)	13,088,803	11,412,384

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 2014 to 31 March 2014**

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 2014, 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 2014 to 31 March 2014 (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 IFRSs have been adopted in these condensed consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRIC 21 *Levies*. The Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs
- Amendments to IAS 32 *Financial Instruments : Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.
- Amendments to IAS 36 - *Recoverable amount disclosures*
The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting*. The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* - Guidance on Investment Entities

On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The objective of this project is to develop an exemption from the requirement to consolidate subsidiaries for eligible investment entities (such as mutual funds, unit trusts, and similar entities), instead requiring the use of the fair value to measure those investments.

The application of amendment does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

2.2 New and revised IFRSs is in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 19 <i>Employee Benefits</i>	1 July 2014
• Annual Improvements to <i>IFRSs 2010 - 2012 Cycle</i> ▪ <i>IFRS 2 Share Based Payments</i> - definition of 'vesting condition'. ▪ <i>IFRS 3 Business Combinations</i> - accounting for contingent consideration. ▪ <i>IFRS 8 Operating Segments</i> - aggregation of segments, reconciliation of segment assets. ▪ <i>IAS 16 Property, Plant and Equipment</i> - proportionate restatement of accumulated depreciation on revaluation. ▪ <i>IAS 24 Related Party Disclosures</i> - management entities. ▪ <i>IAS 38 Intangible Assets</i> - proportionate restatement of accumulated depreciation on revaluation.	1 July 2014
• Annual Improvements to <i>IFRSs 2011 - 2013 Cycle</i> ▪ <i>IFRS 3 Business Combinations</i> - scope exception for joint ventures. ▪ <i>IFRS 13 Fair Value Measurement</i> - scope of the portfolio exception. ▪ <i>IAS 40 Investment Property</i> - interrelationship between IFRS 3 and IAS 40.	1 July 2014
• IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016

Management anticipates that the adoption of the above standards in future years will have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (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 2013.

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 2013. In addition, results for the period from 1 January 2014 to 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

3.2 Basis of consolidation

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

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

3.3 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 2013.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

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 2013.

5. Other financial assets

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

	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	1,424,205	1,207,414
Equities	42,125	16,856
Mutual and other funds	665,242	622,556
	<u>2,131,572</u>	<u>1,846,826</u>
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
Equities	731,699	716,607
Mutual and other funds	36,678	25,877
	<u>768,377</u>	<u>742,484</u>
Total other financial assets measured at fair value	<u>2,899,949</u>	<u>2,589,310</u>
(iii) Financial assets measured at amortised cost		
Debt securities	5,640,762	5,385,140
Total other financial assets	<u>8,540,711</u>	<u>7,974,450</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

5. Other financial assets (continued)

(b) The geographic analysis of investments is as follows:

	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Balances within the U.A.E.	2,939,762	2,946,610
Balances outside the U.A.E.	5,600,949	5,027,840
	8,540,711	7,974,450

(c) During the period from 1 January 2014 to 31 March 2014, dividends received from financial assets measured at FVTOCI amounting to AED 8.8 million (period ended 31 March 2013: AED 14.2 million) were recognized in the condensed consolidated income statement.

(d) Other financial assets measured at FVTOCI includes AED 37 million (2013: AED 26 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 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Loans	42,629,856	40,165,235
Overdrafts	5,488,992	4,697,629
Credit cards	2,286,150	2,204,967
Other	305,287	270,229
	50,710,285	47,338,060
Less: Allowance for impairment	(3,278,198)	(3,057,721)
	47,432,087	44,280,339

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (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 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Manufacturing	3,877,482	4,333,091
Construction	4,767,305	2,944,582
Trade	12,083,147	9,995,823
Services	5,616,461	6,018,650
Financial institutions	2,451,113	2,289,130
Government and public sector	5,260,881	5,504,974
Personal	14,280,445	13,736,058
Transport and communication	2,306,823	2,392,913
Other	66,628	122,839
	50,710,285	47,338,060
Less: Allowance for impairment	(3,278,198)	(3,057,721)
	47,432,087	44,280,339

(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 2014 (un-audited) AED '000	Year ended 31 December 2013 (audited) AED '000
Balance at the beginning of the period/year	3,057,721	2,271,915
Impairment allowance for the period/year	204,812	669,925
Interest in suspense	32,213	171,034
Recoveries during the period/year	(8,849)	(32,580)
Written off during the period/year	(7,699)	(22,573)
	3,278,198	3,057,721

(d) Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (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 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
<u>Financing</u>		
Murabaha	3,907,140	4,200,910
Ijara	1,465,212	1,364,266
	5,372,352	5,565,176
<u>Investment</u>		
Musharakah	-	228,331
Mudaraba	175,591	21,472
Wakala	340,191	398,584
Other	233,501	228,609
	749,283	876,996
Total	6,121,635	6,442,172
Less: Unearned income	(256,227)	(252,184)
Allowance for impairment	(36,473)	(39,192)
	5,828,935	6,150,796

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (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 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Manufacturing	413,784	518,688
Construction	1,110,983	1,282,485
Trade	1,074,824	829,307
Services	1,452,213	1,507,773
Financial institutions	13,549	99,261
Government and public sector	712,670	920,405
Personal	1,249,889	1,282,809
Transport and communication	93,723	1,444
Total	6,121,635	6,442,172
Less: Unearned income	(256,227)	(252,184)
Allowance for impairment	(36,473)	(39,192)
	5,828,935	6,150,796

- (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 2014 (un-audited) AED '000	Year ended 31 December 2013 (audited) AED '000
Balance at the beginning of the period/year	39,192	63,438
Reversal of allowance for the period/year	(2,961)	(10,250)
Profit in suspense/(reversal of profit in suspense)	242	(4,268)
Recoveries during the period/year	-	(569)
Written off during the period/year	-	(9,159)
Balance at the end of the period/year	36,473	39,192

- (d) Allowance for impairment is made against Islamic financing and investment products when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

8. Investment properties

	31 March 2014 (un-audited) AED '000	31 December 2013 (audited) AED '000
<i>At fair value</i>		
Balance at beginning of the period/year	472,959	364,245
Purchases	2,425	4,121
Change in fair value during the period/year	-	104,593
	475,384	472,959

The fair value of investment properties as of 31 December 2013 has been arrived on the basis of a valuation carried out by independent professionally qualified valuers. The valuations, which conforms to Royal Institute of Chartered Surveyors (RICS) Valuation Standards, were arrived at by the reference to market comparable evidence of transaction prices for similar properties.

All of the Group's investment properties are held under free hold interest and located in the U.A.E. No valuations were performed during the period, as the fair value of the investment properties estimated as at 31 December 2013 are reflective of the fair value as of 31 March 2014.

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 from 1 January 2014 to 31 March 2014, the Group purchased approximately AED 20 million (period ended 31 March 2013: AED 10 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 1 million (period ended 31 March 2013: AED 5 million) for proceeds of AED 0.2 million (period ended 31 March 2013: AED 3 million).

10. Medium-term loans

	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Medium term notes	2,779,693	2,537,923

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

10. Medium-term loans (continued)

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

Due date	Interest rate	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
24 January 2017	3 months Libor + 1.125%	1,020,726	1,020,726
24 October 2014	3 Months Libor +1.900%	91,825	91,825
2 May 2014	3 Months Libor +2.300%	183,650	183,650
12 March 2014	3 Months Libor +2.800%	-	183,650
22 Apr 2014	1.300%	91,825	91,825
23 May 2014	1.300%	91,825	91,825
3 Jun 2014	1.300%	91,825	91,825
7 Aug 2014	0.710%	213,426	213,282
25 Sep 2014	1.510%	275,475	275,475
29 Sep 2014	1.350%	110,190	110,190
29 Oct 2014	1.400%	183,650	183,650
20 Feb 2015	1.450%	183,650	-
24 Feb 2016	3 Months Libor +1.450%	110,190	-
6 Feb 2017	2.750%	131,436	-
		2,779,693	2,537,923

The Bank 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 2014, new medium-term notes of AED 425 million were issued and AED 184 million of medium-term notes were redeemed.

11. Issued and paid up capital and dividends

As at 31 March 2014, 169,076,975 ordinary shares of AED 10 each (31 December 2013: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

For the year ended 31 December 2013, a 40 % (2012: 38%) cash dividend amounting to AED 676 million (2012: AED 642 million) was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting conducted on 5 March 2014.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

12. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 36 million for the period from 1 January 2014 to 31 March 2014 (period ended 31 March 2013: AED 30 million).

13. Earnings per share

Earnings per share are calculated by dividing the profit for the period by the number of shares outstanding during the period as follows:

	3 months ended 31 March 2014 (un-audited)	3 months ended 31 March 2013 (un-audited)
Profit for the period (AED'000) (Attributed to shareholders of the parent)	575,172	425,321
Number of ordinary shares outstanding	169,076,975	169,076,975
Basic and diluted earnings per share (AED)	3.40	2.52

14. 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 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000	31 March 2013 (un-audited) AED'000
Cash on hand	603,172	861,066	641,597
Current accounts and other balances with central banks	1,254,312	3,576,101	2,092,682
Deposits and balances due from banks maturing within 3 months	11,231,319	10,142,088	8,678,105
	13,088,803	14,579,255	11,412,384

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

15. Contra accounts

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

	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
<i>Contra accounts (memoranda)</i>		
Guarantees	38,456,033	38,925,764
Letters of credit	7,038,416	7,225,200
	45,494,449	46,150,964

16. Derivative financial instruments

	31 March 2014 (un-audited)		
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	142,173	95,016	33,334,339
Foreign exchange options (bought)	-	43,716	8,439,407
Foreign exchange options (sold)	43,717	-	8,407,760
Interest rate swaps	621,706	517,495	22,521,527
Equity options	1,302	9,463	92,008
Futures contracts purchased (Customer)	704	-	50,289
Futures contracts sold (Customer)	-	601	533,307
Futures contracts sold (Bank)	-	704	50,289
Futures contracts purchased (Bank)	601	-	533,307
	810,203	666,995	73,962,233

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

16. Derivative financial instruments (continued)

31 December 2013 (audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	162,187	113,019	26,488,975
Foreign exchange options (bought)	-	52,173	4,046,344
Foreign exchange options (sold)	52,180	-	4,025,629
Interest rate swaps	627,271	523,960	21,712,043
Equity options	146	668	38,499
Futures contracts purchased (Customer)	4,106	-	33,394
Futures contracts sold (Customer)	-	3,208	310,363
Futures contracts sold (Bank)	-	4,106	33,394
Futures contracts purchased (Bank)	3,208	-	310,363
	<u>849,098</u>	<u>697,134</u>	<u>56,999,004</u>

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

17. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three month periods ended 31 March 2014 and 2013.

18. 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 87.26% (2013: 87.27%) of the issued and paid up capital. The remaining shares are widely held by other parties.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

18. Related party transactions (continued)

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

	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
Loans and advances measured at amortised cost	1,726,688	1,802,812
Customers' deposits	875,880	697,270
Letters of credit and guarantees	3,038,923	2,774,129

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

	3 months ended 31 March 2014 (un-audited) AED '000	3 months ended 31 March 2013 (un-audited) AED '000
Interest income	21,546	27,113
Interest expense	4,061	2,688
Other income, net	40,667	25,902

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

19. 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, cash management and SME & private banking 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 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

19. Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2014 to 31 March 2014 (un-audited)							
	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	196,110	252,840	(3,090)	118,139	51,858	8,527	61,315	685,699
Other income, net	129,089	122,694	161,684	120,765	34,247	119,755	7,609	695,843
Total operating income	325,199	375,534	158,594	238,904	86,105	128,282	68,924	1,381,542
General and administrative expenses								(524,243)
Allowances for impairment								(251,467)
Profit before taxes								605,832
Overseas income tax expense								(12,847)
Profit for the period								592,985
Attributed to:								
Shareholders of the parent								575,172
Non-controlling interests								17,813
								592,985
Segment Assets	28,237,933	12,940,841	13,794,697	17,311,939	6,267,920	3,652,766	11,872,708	94,078,804
Segment Liabilities	31,661,243	16,081,394	6,820,316	14,992,891	4,631,311	2,130,731	2,723,501	79,041,387

Notes to the condensed consolidated financial statements

19. Segmental information (continued)

Period from 1 January 2013 to 31 March 2013 (un-audited)

	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	137,645	198,799	(33,960)	88,493	41,617	(798)	54,419	486,215
Other income, net	<u>154,626</u>	<u>103,186</u>	<u>125,573</u>	<u>91,717</u>	<u>10,349</u>	<u>144,927</u>	<u>1,027</u>	<u>631,405</u>
Total operating income	<u>292,271</u>	<u>301,985</u>	<u>91,613</u>	<u>180,210</u>	<u>51,966</u>	<u>144,129</u>	<u>55,446</u>	<u>1,117,620</u>
General and administrative expenses								
Allowances for impairment								(486,688)
								(170,726)
Profit before taxes								
Overseas income tax expense								460,206
								(11,990)
Profit for the period								448,216
Attributed to:								
Shareholders of the parent								425,321
Non-controlling interests								22,895
								448,216
Segment Assets	26,025,694	11,899,349	13,320,385	15,759,163	6,684,116	3,572,229	12,393,978	89,654,914
Segment Liabilities	<u>30,188,237</u>	<u>14,768,000</u>	<u>6,959,713</u>	<u>13,528,895</u>	<u>4,479,605</u>	<u>2,001,278</u>	<u>2,608,658</u>	<u>74,534,386</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

19. 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 **	
	3 months ended 31 March 2014 (un-audited) AED'000	3 months ended 31 March 2013 (un-audited) AED'000	31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
U.A.E.	1,194,377	970,050	1,525,718	1,536,849
Other Middle East countries	133,764	102,119	31,191	33,757
O.E.C.D.	39,123	35,194	3,114	3,114
Other countries	14,278	10,257	27,040	27,114
	1,381,542	1,117,620	1,587,063	1,600,834

* 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 2014 to 31 March 2014 (continued)**

20. 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 2014 to 31 March 2014 (continued)**

20. 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 2014 (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	308,918	1,115,287	-	1,424,205
- Equities	41,559	-	566	42,125
- Mutual and other funds	665,242	-	-	665,242
Other financial assets measured at FVTOCI				
- Equities	372,933	-	358,766	731,699
- Mutual and other funds	36,678	-	-	36,678
Total	1,425,330	1,115,287	359,332	2,899,949
<i>Other assets</i>				
Positive fair value of derivatives	142,173	668,030	-	810,203
<i>Other liabilities</i>				
Negative fair value of derivatives	95,016	571,979	-	666,995

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

20. 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 2013

	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	120,033	1,087,381	-	1,207,414
- Equities	16,289	-	567	16,856
- Mutual and other funds	622,556	-	-	622,556
Other financial assets measured at FVTOCI				
- Equities	358,159	-	358,448	716,607
- Mutual and other funds	25,877	-	-	25,877
Total	1,142,914	1,087,381	359,015	2,589,310
<i>Other assets</i>				
Positive fair value of derivatives	162,187	686,911	-	849,098
<i>Other liabilities</i>				
Negative fair value of derivatives	113,019	584,115	-	697,134

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 2014 to 31 March 2014 (continued)**

20. Fair value of financial instruments (continued)

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

	31 March 2014 (unaudited) AED'000	31 December 2013 (audited) AED'000
Balance at the beginning of the period/year	358,448	316,712
Purchases	380	34,400
Cost of sales	(4,935)	(959)
Transfer in from Level 1	-	16,324
Change in fair value	4,873	(8,029)
Balance at the end of the period/year	358,766	358,448

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
31 March 2014		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	5,640,762	3,798,118	-	1,769,923	5,568,041
31 December 2013					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	5,385,140	3,558,299	-	1,694,449	5,252,748

**Notes to the condensed consolidated financial statements
for the period from 1 January 2014 to 31 March 2014 (continued)**

20. 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 2014					
<i>Financial liabilities</i>					
Medium-term notes	2,779,693	2,329,676	-	406,910	2,736,586
31 December 2013					
<i>Financial liabilities</i>					
Medium-term notes	2,537,923	1,810,668	-	642,775	2,453,443

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 March 2014 and 2013:

	Reflected in condensed consolidated statement of income		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 2014				
Other financial assets measured at fair value	213,157	(213,157)	76,838	(76,838)
31 March 2013				
Other financial assets measured at fair value	218,457	(218,457)	91,549	(91,549)

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 2014 to 31 March 2014 (continued)**

21. Capital adequacy ratio

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

		31 March 2014 (un-audited) AED'000	31 December 2013 (audited) AED'000
<i>Capital base</i>			
Tier 1 capital		14,487,762	14,593,618
Tier 2 capital		1,477,520	1,584,322
Deduction from capital		(31,825)	(31,825)
Total capital base	(A)	15,933,457	16,146,115
<i>Risk-weighted assets</i>			
Credit risk		86,284,270	84,028,151
Market risk		3,524,393	530,716
Operational risk		5,080,112	4,415,785
Total risk-weighted assets	(B)	94,888,775	88,974,652
Risk asset ratio (%) [(A)/(B) x 100]		16.79%	18.15%

22. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 31 were approved by the Board of Directors on 30 April 2014.