

MASHREQBANK PSC GROUP

**Review report and interim
financial information for the period
from 1 January 2016 to 30 September 2016**

MASHREQBANK PSC GROUP

Review report and interim financial information for the period from 1 January 2016 to 30 September 2016

Contents	Pages
Report on review of interim financial information	1
Condensed consolidated statement of financial position	2
Condensed consolidated income statement (un-audited)	3
Condensed consolidated statement of comprehensive income (un-audited)	4
Condensed consolidated statement of changes in equity	5
Condensed consolidated statement of cash flows (un-audited)	6
Notes to the condensed consolidated financial statements	7 - 41

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 30 September 2016 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flows for the nine-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.)



Musa Ramahi
Partner
Registration No. 872
23 October 2016

**Condensed consolidated statement of financial position
as at 30 September 2016**

		30 September 2016 (un-audited) AED '000	31 December 2015 (audited) AED '000
	Notes		
ASSETS			
Cash and balances with central banks		16,734,939	19,423,463
Deposits and balances due from banks		15,326,885	15,009,990
Other financial assets measured at fair value	5	3,208,089	3,924,965
Loans and advances measured at amortised cost	6	54,277,592	53,555,070
Islamic financing and investment products measured at amortised cost	7	8,019,497	6,610,606
Other financial assets measured at amortised cost	5	11,009,112	7,993,072
Other assets		9,361,046	6,928,970
Goodwill		17,726	18,150
Investment properties	8	523,771	527,525
Property and equipment	9	1,145,806	1,165,370
Total assets		119,624,463	115,157,181
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks	10	8,078,308	9,231,913
Repurchase agreements with banks		872,570	734,564
Customers' deposits	11	69,255,045	65,243,790
Islamic customers' deposits	12	6,020,893	8,391,490
Insurance and life assurance funds		1,576,936	1,559,704
Other liabilities		10,113,800	7,404,136
Medium-term loans	13	4,493,864	4,105,856
Total liabilities		100,411,416	96,671,453
Equity			
Issued and paid up capital	14	1,775,308	1,775,308
Statutory and legal reserves		899,351	896,595
General reserve		312,000	312,000
Cumulative translation adjustment		(87,352)	(60,610)
Investments revaluation reserve		(283,850)	(276,416)
Cash flow hedging reserve		4,817	9,221
Retained earnings		15,877,913	15,112,512
Equity attributable to owners of the Parent		18,498,187	17,768,610
Non-controlling interests	15	714,860	717,118
Total equity		19,213,047	18,485,728
Total liabilities and equity		119,624,463	115,157,181


Abdulla Bin 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 2016 to 30 September 2016**

	Notes	3 months ended 30 September		9 months ended 30 September	
		2016	2015	2016	2015
		(un-audited) AED '000	(un-audited) AED '000	(un-audited) AED '000	(un-audited) AED '000
Interest income		1,167,029	1,048,434	3,311,732	3,074,327
Income from Islamic financing and investment products		89,242	64,248	256,925	172,175
Total interest income and income from Islamic financing and investment products		1,256,271	1,112,682	3,568,657	3,246,502
Interest expense		(369,142)	(269,541)	(980,307)	(754,851)
Distribution to depositors – Islamic products		(26,778)	(17,205)	(76,218)	(42,422)
Net interest income and net income from Islamic products		860,351	825,936	2,512,132	2,449,229
Fee and commission income		712,594	728,382	2,286,532	2,253,135
Fee and commission expense		(313,801)	(320,090)	(993,724)	(955,752)
Net fee and commission income		398,793	408,292	1,292,808	1,297,383
Net investment income		26,375	18,667	223,162	117,489
Other income, net		210,983	190,118	636,499	594,238
Operating income		1,496,502	1,443,013	4,664,601	4,458,339
General and administrative expenses	16	(582,545)	(603,111)	(1,786,695)	(1,822,788)
Allowances for impairment, net		(470,092)	(258,299)	(1,308,176)	(682,169)
Profit before taxes		443,865	581,603	1,569,730	1,953,382
Overseas income tax expense		(24,286)	(18,623)	(57,583)	(63,062)
Profit for the period		419,579	562,980	1,512,147	1,890,320
Attributed to:					
Owners of the Parent		414,952	551,443	1,486,181	1,845,859
Non-controlling interests		4,627	11,537	25,966	44,461
		419,579	562,980	1,512,147	1,890,320
Earnings per share (AED)	17	2.34	3.11	8.37	10.40

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 2016 to 30 September 2016**

	3 months ended 30 September		9 months ended 30 September	
	2016	2015	2016	2015
	(un-audited)	(un-audited)	(un-audited)	(un-audited)
	AED '000	AED '000	AED '000	AED '000
Profit for the period	419,579	562,980	1,512,147	1,890,320
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in fair value of financial assets measured at FVTOCI, net	(31,605)	(56,056)	(26,904)	(108,590)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Cumulative translation adjustment	3,168	4,915	(26,742)	(5,530)
Cash flow hedges - Fair value loss arising during the period	(877)	(2,531)	(4,404)	(834)
Total other comprehensive loss for the period	(29,314)	(53,672)	(58,050)	(114,954)
Total comprehensive income for the period	390,265	509,308	1,454,097	1,775,366
Attributed to:				
Owners of the Parent	393,920	514,844	1,439,700	1,765,643
Non-controlling interests	(3,655)	(5,536)	14,397	9,723
	390,265	509,308	1,454,097	1,775,366

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 2016 to 30 September 2016**

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Cash flow hedging reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2015 (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	-	-	-	-	-	-	1,845,859	1,845,859	44,461	1,890,320
Other comprehensive loss	-	-	-	(5,530)	(73,852)	(834)	-	(80,216)	(34,738)	(114,954)
Total comprehensive income/(loss) for the period	-	-	-	(5,530)	(73,852)	(834)	1,845,859	1,765,643	9,723	1,775,366
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	-	-	-	-	9,410	-	(9,410)	-	-	-
Additional contribution attributable to the non- controlling interest shareholders (Note 15)	-	-	-	-	-	-	-	-	3,096	3,096
Balance at 30 September 2015 (un-audited)	1,775,308	852,582	312,000	(58,845)	(216,592)	(834)	14,588,598	17,252,217	751,698	18,003,915
Balance at 1 January 2016 (audited)	1,775,308	896,595	312,000	(60,610)	(276,416)	9,221	15,112,512	17,768,610	717,118	18,485,728
Profit for the period	-	-	-	-	-	-	1,486,181	1,486,181	25,966	1,512,147
Other comprehensive loss	-	-	-	(26,742)	(15,335)	(4,404)	-	(46,481)	(11,569)	(58,050)
Total comprehensive income/(loss) for the period	-	-	-	(26,742)	(15,335)	(4,404)	1,486,181	1,439,700	14,397	1,454,097
Transfer to statutory and legal reserves	-	2,756	-	-	-	-	(2,756)	-	-	-
Payment of dividends (Note 14)	-	-	-	-	-	-	(710,123)	(710,123)	(16,655)	(726,778)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	7,901	-	(7,901)	-	-	-
Balance at 30 September 2016 (un-audited)	1,775,308	899,351	312,000	(87,352)	(283,850)	4,817	15,877,913	18,498,187	714,860	19,213,047

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 2016 to 30 September 2016**

	9 months ended 30 September 2016 (un-audited) AED '000	9 months ended 30 September 2015 (un-audited) AED '000
Cash flows from operating activities		
Profit before taxation for the period	1,569,730	1,953,382
Adjustments for:		
Depreciation of property and equipment	115,236	107,703
Allowance for impairment, net	1,308,175	682,169
Loss on disposal of property and equipment	2,867	3,393
Fair value adjustment of other financial assets measured at FVTPL	(10,934)	28,510
Fair value adjustment of derivatives	(716)	(758)
Dividend income from financial assets measured at FVTOCI	(24,705)	(24,373)
Fair value adjustment of investment properties	(746)	(32,195)
Changes in operating assets and liabilities		
Increase in deposits with central banks for regulatory purposes and certificate of deposits with the central banks	(1,067,465)	(2,293,313)
(Increase)/decrease in deposits and balances due from banks maturing after three months	(2,669,683)	115,867
Decrease/(increase) in other financial assets measured at FVTPL	793,174	(892,852)
Increase in loans and advances measured at amortised cost	(1,956,246)	(291,210)
Increase in Islamic financing and investment products measured at amortised cost	(1,454,098)	(727,806)
Increase in other assets	(2,464,584)	(1,616,530)
Decrease in deposits and balances due to banks	(1,153,605)	(1,676,905)
Increase in customers' deposits	4,011,255	425,904
(Decrease)/increase in Islamic customers' deposits	(2,370,597)	4,155,813
Increase in insurance and life assurance funds	17,232	4,133
Increase in other liabilities	2,709,664	1,956,410
Increase in medium-term loans - net	388,008	209,180
Increase/(decrease) in repurchase agreements with banks	138,006	(623,036)
Overseas income tax	(57,583)	(63,062)
Net cash (used in)/generated from operating activities	(2,177,615)	1,400,424
Cash flows from investing activities		
Purchase of property and equipment	(99,138)	(129,205)
Proceeds from sale of property and equipment	599	27,425
Net increase in non-trading investments	(3,108,308)	(931,687)
Purchase of investment properties	-	(3,012)
Proceeds from disposal of investment properties	4,500	-
Dividend income received from other financial assets measured at FVTOCI	24,705	24,373
Net cash used in investing activities	(3,177,642)	(1,012,106)
Cash flows from financing activities		
Dividend paid	(726,778)	(693,097)
Additional contribution by non-controlling interest shareholders	-	3,096
Net cash used in financing activities	(726,778)	(690,001)
Net decrease in cash and cash equivalents	(6,082,035)	(301,683)
Net foreign exchange difference	(26,742)	(5,530)
Cash and cash equivalents at beginning of the period (Note 18)	19,877,731	16,492,532
Cash and cash equivalents at end of the period (Note 18)	13,768,954	16,185,319

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 2016 to 30 September 2016**

1. General information

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

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

At 30 September 2016, 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	63.94	63.94	Insurance and reinsurance
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 management
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund management
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

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

2.1 New and revised IFRS adopted with no material effect on the condensed consolidated financial statements

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

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 12 relating to recognition of <i>Deferred Tax Assets for Unrealised Losses</i>.	1 January 2017
• Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities	1 January 2017

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Finalised version of IFRS 9 [IFRS 9 <i>Financial Instruments</i> (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. 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.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely

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

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.

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (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 2015.

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 2015. In addition, results for the period from 1 January 2016 to 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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

3.2 Basis of consolidation

These condensed consolidated 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 assets

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

Classification of financial assets

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

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

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

Financial assets at mortised cost

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

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

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

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

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

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

A financial asset measured at fair value through other comprehensive income are under such category, if both of the following conditions are met:

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

Financial assets at fair value through other comprehensive income (OCI) comprise:

- equity securities which are not held for trading, and for which the company has made an irrevocable election at initial recognition to recognise changes in fair value through OCI rather than profit or loss, and
- debt securities where the contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in condensed consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. Upon disposal of these equity investments, any balance within the OCI reserve for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

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

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

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

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

The company classifies the following financial assets at fair value through profit or loss:

- debt investments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 24 to the consolidated financial statements.

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

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

Reclassification

Reclassification of financial assets

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

Reclassification from FVTPL To Amortised Cost

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Reclassification (continued)

Reclassification from FVTOCI To Amortised Cost

If Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment under IAS 1 – “Presentation of Financial Statements”. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

Effective interest method

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Impairment of financial assets (continued)

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

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

(i) Individually assessed loans

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

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

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

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

(a) Performing commercial and other loans

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

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

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

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

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Derecognition of financial assets

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

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

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

3.4 Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

3.4 Hedge accounting (continued)

Cash flow hedges (continued)

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

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

Hedges of net investments in foreign operations

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

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

3.5 Islamic financing and investment products measured at amortised cost

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

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

(i) *Definitions*

The following terms are used in Islamic financing:

Murabaha

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

Ijara

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

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

Musharaka

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

Mudaraba

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

Wakala

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

(ii) *Accounting policy*

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

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

Allowance for impairment is made against Islamic financing and investment products measured at amortised cost when their recovery is in doubt taking into consideration IFRS requirements. Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) *Revenue recognition policy*

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

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

Murabaha

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

Ijara

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

Musharaka

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

MASHREQBANK PSC GROUP

Notes to the condensed consolidated financial statements for the period from 1 January 2016 to 30 September 2016 (continued)

3. Summary of significant accounting policies (continued)

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

Mudaraba

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

Wakala

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

(iv) *Islamic customers' deposits and distributions to depositors*

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

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

3.6 Investment properties

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

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

3.7 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 2015.

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

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

5. Other financial assets

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	1,935,521	2,661,012
Equities	448	17,056
Mutual and other funds	549,601	589,742
	<u>2,485,570</u>	<u>3,267,810</u>
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
Equities	682,338	619,433
Mutual and other funds	40,181	37,722
	<u>722,519</u>	<u>657,155</u>
Total other financial assets measured at fair value	<u>3,208,089</u>	<u>3,924,965</u>
(iii) Financial assets measured at amortised cost		
Debt securities	11,009,112	7,993,072
Total other financial assets	<u>14,217,201</u>	<u>11,918,037</u>

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Balances within the U.A.E.	3,416,970	3,338,488
Balances outside the U.A.E.	10,800,231	8,579,549
	<u>14,217,201</u>	<u>11,918,037</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

5. Other financial assets (continued)

- (c) During the period from 1 January 2016 to 30 September 2016, dividends received from financial assets measured at FVTOCI amounting to AED 25 million (period ended 30 September 2015: AED 24 million) were recognised as net investment income in the condensed consolidated income statement.
- (d) Other financial assets measured at FVTOCI include AED 40 million (31 December 2015: AED 38 million) which represents investments in the Makaseb Income Fund. The fund is managed by the Group and has no fixed maturity or coupon rate and fair value of the fund is based on the net assets value of the respective fund.
- (e) Other financial assets measured at FVTPL include investment in mutual and other funds of AED 225 million (31 December 2015: AED 245 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Al Islami Income Fund, Mashreq Al Islami Arab Tigers Fund and Mashreq Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the net asset value of the respective fund.
- (f) Other financial assets measured at amortised cost include AED 1.7 billion (31 December 2015: Nil) which represent investments reclassified from investments previously measured at FVTPL. Due to this reclassification, the net profit for the period ended 30 September 2016 has increased by AED 3.4 million (period ended 30 September 2015: Nil).

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:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Loans	49,412,819	48,201,075
Overdrafts	4,940,807	4,563,342
Credit cards	2,985,753	3,167,485
Other	472,964	389,337
	57,812,343	56,321,239
Less: Allowance for impairment	(3,534,751)	(2,766,169)
	54,277,592	53,555,070

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Manufacturing	4,201,566	3,902,432
Construction	4,912,803	3,849,313
Trade	10,214,803	11,102,269
Services	5,634,999	4,820,698
Financial institutions	1,130,311	660,483
Government and related enterprises	10,634,010	10,807,900
Personal	16,993,407	16,604,872
Transport and communication	3,739,960	4,282,487
Other	350,484	290,785
	57,812,343	56,321,239
Less: Allowance for impairment	(3,534,751)	(2,766,169)
	54,277,592	53,555,070

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

	9 months ended 30 September 2016 (un-audited) AED '000	Year ended 31 December 2015 (audited) AED '000
Balance at the beginning of the period/year	2,766,169	3,136,593
Impairment allowance for the period/year	655,037	789,214
Interest in suspense	127,767	84,835
Exchange and other adjustments	(3,900)	(4,440)
Recoveries during the period/year	(4,351)	(5,215)
Written off during the period/year	(5,971)	(1,234,818)
	3,534,751	2,766,169
Balance at the end of the period/year	3,534,751	2,766,169

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<u>Financing</u>		
Murabaha	4,057,508	3,907,356
Ijara	3,103,448	1,672,605
	7,160,956	5,579,961
<u>Investment</u>		
Mudaraba	225,172	182,813
Wakala	873,845	1,112,519
	1,099,017	1,295,332
Total	8,259,973	6,875,293
Less: Unearned income	(175,549)	(216,056)
Allowance for impairment	(64,927)	(48,631)
	8,019,497	6,610,606

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Manufacturing	599,664	692,410
Construction	1,686,538	1,263,384
Trade	1,003,874	1,229,460
Services	1,948,275	840,012
Financial institutions	295,898	23,576
Government and related enterprises	310,651	440,972
Personal	1,728,356	1,607,374
Transport and communication	686,717	778,105
Total	8,259,973	6,875,293
Less: Unearned income	(175,549)	(216,056)
Allowance for impairment	(64,927)	(48,631)
	8,019,497	6,610,606

- (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:

	9 months ended 30 September 2016 (un-audited) AED '000	Year ended 31 December 2015 (audited) AED '000
Balance at the beginning of the period/year	48,631	48,014
Impairment/(reversal of) allowance for the period/year	16,541	(382)
(Reversal of profit in suspense)/profit suspended	(245)	999
Balance at the end of the period/year	64,927	48,631

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

8. Investment properties

	30 September 2016 (un-audited) AED '000	31 December 2015 (audited) AED '000
<i>At fair value</i>		
Balance at beginning of the period/year	527,525	490,317
Purchases during the period/year	-	3,012
Disposals during the period/year	(4,500)	-
Change in fair value during the period/year	746	34,196
Balance at the end of the period/year	523,771	527,525

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

The fair value of the investment properties as at 31 December 2015 were arrived at on the basis of a valuation carried out by independent, professionally qualified valuers, who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

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 unobservable market inputs, i.e. Level 3.

9. Property and equipment

During the period, the Group purchased approximately AED 99 million (period ended 30 September 2015: AED 129 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 3.5 million (period ended 30 September 2015: AED 30 million) for proceeds of AED 0.5 million (period ended 30 September 2015: AED 27 million).

10. Deposits and balances due to banks

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

	30 September 2016 (un-audited) AED '000	31 December 2015 (audited) AED '000
Time	4,447,405	4,086,745
Demand	2,224,919	2,262,741
Overnight	1,405,984	2,882,427
	8,078,308	9,231,913

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

11. Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Current and other accounts	39,166,848	38,839,043
Saving accounts	3,593,161	3,555,435
Time deposits	26,495,036	22,849,312
	69,255,045	65,243,790

12. Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Current and other accounts	3,217,354	2,845,304
Saving accounts	135,916	172,525
Time deposits	2,667,623	5,373,661
	6,020,893	8,391,490

13. Medium-term loans

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Medium term notes (a)	2,657,364	2,269,356
Syndicated loan (b)	1,836,500	1,836,500
	4,493,864	4,105,856

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
24 February 2016	3 months Libor + 1.450%	-	110,190
16 May 2016	3 months Euribor + 1.250%	-	41,369
23 June 2016	1.370%	-	183,650
25 June 2016	2.060%	-	36,730
30 June 2016	3 months Libor + 0.780%	-	36,730
7 July 2016	3 months Libor + 1.300%	-	93,294
9 July 2016	1.300%	-	36,730
28 July 2016	0.270%	-	47,115
4 August 2016	3 months Libor + 0.800%	-	73,460
5 August 2016	3 months Libor + 0.850%	-	95,787
18 August 2016	0.280%	-	43,974
11 October 2016	0.250%	111,750	94,230
19 December 2016	0.380%	37,250	31,410
18 January 2017	3 months Libor + 1.000%	91,825	91,825
24 January 2017	3 months Libor + 1.125% *	1,020,727	1,020,727
6 February 2017	2.750%	122,848	121,945
30 March 2017	1.880%	98,069	-
30 March 2017	0.220%	74,500	-
27 April 2017	0.220%	44,700	-
3 May 2017	0.400%	42,417	-
11 May 2017	1.830%	37,832	-
6 June 2017	3 months Libor + 1.750%	55,095	55,095
1 August 2017	2.000%	312,205	-
4 August 2017	3 months Libor + 1.050%	73,460	-
16 August 2017	Zero coupon	116,993	-
24 August 2017	2.000%	183,650	-
11 December 2017	0.250%	37,250	-
23 April 2018	3 months Libor + 1.050%	55,095	55,095
7 September 2018	4.100%	141,698	-
		2,657,364	2,269,356

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

During the period ended 30 September 2016, new medium-term notes of AED 1,162 million were issued and AED 775 million of medium-term notes were redeemed.

* AED 1.02 billion is a subordinated floating rate note ("FRN") and qualified and approved by the 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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

13. Medium-term loans (continued)

- (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.

14. Issued and paid up capital and dividends

As at 30 September 2016, 177,530,823 ordinary shares of AED 10 each (31 December 2015: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 28 February 2016, the shareholders approved a cash dividend of 40% (31 December 2014: cash dividend of 40% and stock dividend of 5%) of the issued and paid up capital amounting to AED 710 million (31 December 2014: AED 676 million).

15. Non-controlling interests

	9 months ended 30 September 2016 (un-audited) AED'000	Year ended 31 December 2015 (audited) AED'000
Balance at the beginning of the period/year	717,118	755,668
Profit for the period/year	25,966	32,538
Other comprehensive loss for the period/year	(11,569)	(56,069)
Dividends paid	(16,655)	(18,129)
Additional contribution attributable to the non-controlling interest shareholders *	-	3,110
Balance at the end of the period/year	714,860	717,118

* Additional contribution was made in 2015 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 99 million for the period from 30 September 2016 (period ended 30 September 2015: AED 112 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 2016 to 30 September 2016 (continued)**

17. Earnings per share (continued)

	9 months ended 30 September 2016 (un-audited)	9 months ended 30 September 2015 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	1,486,181	1,845,859
Number of ordinary shares outstanding	177,530,823	177,530,823
Basic earnings per share (AED)	8.37	10.40

There were no potentially dilutive shares as of 30 September 2016 and 30 September 2015.

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:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000	30 September 2015 (un-audited) AED'000
Cash on hand	997,725	845,591	728,896
Current accounts and other balances with central banks	3,295,121	8,203,244	4,125,810
Certificates of deposit maturing within 3 months	1,000,000	-	-
Deposits and balances due from banks maturing within 3 months	8,476,108	10,828,896	11,330,613
	13,768,954	19,877,731	16,185,319

19. Contra accounts

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Contra accounts (memoranda)</i>		
Guarantees	39,793,890	40,720,747
Letters of credit	4,348,797	5,912,089
	44,142,687	46,632,836

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

20. Derivative financial instruments

30 September 2016 (un-audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	246,273	169,896	41,234,429
Foreign exchange options (bought)	-	46,768	4,781,686
Foreign exchange options (sold)	47,074	-	4,806,215
Interest rate swaps	610,196	601,281	28,676,058
Credit Default Swaps	-	190	20,000
Futures contracts purchased (Customer)	633	-	116,889
Futures contracts sold (Customer)	-	2,612	239,225
Futures contracts sold (Bank)	-	633	116,889
Futures contracts purchased (Bank)	2,612	-	239,225
	906,788	821,380	80,230,616
Held as cash flow hedging:			
Cross currency swap	40,177	-	270,735
	946,965	821,380	80,501,351

31 December 2015 (audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000
Held for trading:			
Forward foreign exchange contract	246,524	251,518	52,793,334
Foreign exchange options (bought)	-	26,821	2,825,778
Foreign exchange options (sold)	28,804	-	2,416,564
Interest rate swaps	595,413	591,110	31,254,336
Credit default swaps	17	-	18,365
Equity options	3,499	-	20,234
Futures contracts purchased (Customer)	-	48	36,551
Futures contracts sold (Customer)	-	2,361	122,695
Futures contracts sold (Bank)	48	-	36,551
Futures contracts purchased (Bank)	2,361	-	122,695
	876,666	871,858	89,647,103
Held as cash flow hedges:			
Cross Currency Swaps	2,567	749	270,735
	879,233	872,607	89,917,838

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

21. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the nine month period ended 30 September 2016 and 2015.

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 87.76% (31 December 2015: 87.73%) of the issued and paid up capital. The remaining shares are widely held by other parties.
- (c) Related party balances included in the condensed consolidated statement of financial position are as follows:

	30 September 2016 (un-audited) AED’000	31 December 2015 (audited) AED’000
Loans and advances measured at amortised cost	2,364,797	1,539,510
Customers’ deposits	1,243,001	1,401,076
Letters of credit and guarantee	1,257,353	2,014,011

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

	Period ended 30 September 2016 (un-audited) AED ’000	Period ended 30 September 2015 (un-audited) AED ’000
Interest income	60,467	50,188
Interest expense	5,776	8,246
Other income, net	45,791	44,049

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

23. Segmental information

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

Reportable segments

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

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

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

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

Notes to the condensed consolidated financial statements

23. Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2016 to 30 September 2016 (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	633,583	834,508	26,178	522,176	232,038	41,988	221,661	2,512,132
Other income, net	345,085	461,962	401,010	584,975	68,863	284,452	6,122	2,152,469
Total operating income	978,668	1,296,470	427,188	1,107,151	300,901	326,440	227,783	4,664,601
General and administrative expenses								(1,786,695)
Allowances for impairment								(1,308,176)
Profit before taxes								1,569,730
Overseas income tax expense								(57,583)
Profit for the period								1,512,147
Attributed to:								
Owners of the Parent								1,486,181
Non-controlling interests								25,966
								1,512,147
Segment Assets	30,360,741	13,769,536	16,198,867	31,131,029	9,025,345	4,672,944	14,466,001	119,624,463
Segment Liabilities	26,807,000	24,413,658	7,853,000	24,398,000	6,997,819	2,969,245	6,972,694	100,411,416

Notes to the condensed consolidated financial statements

23. Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2015 to 30 September 2015 (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	658,139	897,122	67,031	455,533	129,752	31,406	210,246
Other income, net	333,562	461,296	355,959	495,825	44,208	293,394	24,866
Total operating income	991,701	1,358,418	422,990	951,358	173,960	324,800	235,112
General and administrative expenses							
Allowances for impairment							
Profit before taxes							
Overseas income tax expense							
Profit for the period							
Attributed to:							
Owners of the Parent							
Non-controlling interests							
Segment Assets	29,500,767	14,430,585	15,657,273	32,831,357	7,594,622	4,204,384	10,938,193
Segment Liabilities	26,799,217	23,041,000	9,009,000	21,281,772	8,459,961	2,336,422	5,744,081

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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 external customers *		Non-current assets **	
	9 months ended 30 September 2016 (un-audited) AED'000	9 months ended 30 September 2015 (un-audited) AED'000	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
U.A.E.	3,784,835	3,723,926	1,631,409	1,653,031
Other Middle East countries	700,623	574,470	34,056	36,008
O.E.C.D.	141,171	119,898	2,656	2,476
Other countries	37,972	40,045	19,189	19,530
	4,664,601	4,458,339	1,687,310	1,711,045

* 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 2016 to 30 September 2016 (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 2016 to 30 September 2016 (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)

30 September 2016 (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	303,878	1,566,840	64,803	1,935,521
- Equities	-	-	448	448
- Mutual and other funds	261,725	-	287,876	549,601
Total other financial assets measured at FVTPL	565,603	1,566,840	353,127	2,485,570
Other financial assets measured at FVTOCI				
- Equities	377,673	-	304,665	682,338
- Mutual and other funds	40,181	-	-	40,181
Total other financial assets measured at FVTOCI	417,854	-	304,665	722,519
Total	983,457	1,566,840	657,792	3,208,089
<i>Other assets</i>				
Positive fair value of derivatives	246,273	700,692	-	946,965
<i>Other liabilities</i>				
Negative fair value of derivatives	169,896	651,484	-	821,380

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (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 2015 (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	188,924	2,404,569	67,519	2,661,012
- Equities	16,548	-	508	17,056
- Mutual and other funds	261,935	-	327,807	589,742
Total other financial assets measured at FVTPL	467,407	2,404,569	395,834	3,267,810
Other financial assets measured at FVTOCI				
- Equities	402,783	-	216,650	619,433
- Mutual and other funds	37,722	-	-	37,722
Total other financial assets measured at FVTOCI	440,505	-	216,650	657,155
Total	907,912	2,404,569	612,484	3,924,965
<i>Other assets</i>				
Positive fair value of derivatives	246,524	632,709	-	879,233
<i>Other liabilities</i>				
Negative fair value of derivatives	251,518	621,089	-	872,607

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 2016 to 30 September 2016 (continued)**

24. Fair value of financial instruments (continued)

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

	9 months ended 30 September 2016 (unaudited) AED'000	Year ended 31 December 2015 (audited) AED'000
Balance at the beginning of the period/year	395,834	393,977
Purchases	99,331	134,367
Disposals/matured	(158,108)	(199,308)
Transfer in	-	85,178
Change in fair value	16,070	(18,380)
Balance at the end of the period/year	353,127	395,834

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

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Balance at the beginning of the period/year	216,650	214,647
Purchases	89,418	37,350
Disposals	(6,987)	(21,397)
Change in fair value	5,584	(13,950)
Balance at the end of the period/year	304,665	216,650

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 included in the condensed consolidated financial statements approximate their fair values.

24. Fair value of financial instruments (continued)

	Carrying amount	Fair value			
30 September 2016 (un-audited)	AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	11,009,112	8,780,735	-	2,282,328	11,063,063

Financial assets:
Other financial assets
measured at amortised
cost

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
30 September 2016 (un-audited)	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Financial liabilities</i>					
Medium-term notes	2,657,364	2,023,190	-	632,097	2,655,287

<i>Financial liabilities</i>					
Medium-term notes	2,269,356	1,434,794	-	811,281	2,246,075

The following table shows the sensitivity of fair values to 10% increase or decrease as at 30 September 2016 and 2015:

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

24. Fair value of financial instruments (continued)

Fair value sensitivity analysis (continued)

	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
30 September 2016				
Other financial assets measured at fair value	248,557	(248,557)	72,252	(72,252)
30 September 2015				
Other financial assets measured at fair value	328,389	(328,389)	75,408	(75,408)

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.

25. Capital adequacy ratio

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

		30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Capital base			
Tier 1 capital		18,742,435	18,000,740
Tier 2 capital		1,097,425	1,177,857
Total capital base	(A)	19,839,860	19,178,597
Risk-weighted assets			
Credit risk		106,595,531	99,731,614
Market risk		3,188,677	4,424,390
Operational risk		9,358,033	9,358,033
Total risk-weighted assets	(B)	119,142,241	113,514,037
Risk asset ratio (%) [(A)/(B) x 100]		16.65%	16.90%

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

26. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 41 were approved by the Board of Directors on 23 October 2016.