

MASHREQBANK PSC GROUP

**Review report and interim
financial information for the period
from 1 January 2017 to 31 March 2017**

MASHREQBANK PSC GROUP

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Mashreqbank psc
Dubai
United Arab Emirates

We have reviewed the accompanying condensed consolidated statement of financial position of **Mashreqbank psc and its Subsidiaries** (the "Group") as at 31 March 2017 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flows for the three-month period then ended. Management of the Group is responsible for the preparation and 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
12 April 2017
Dubai
United Arab Emirates

**Condensed consolidated statement of financial position
as at 31 March 2017**

		31 March 2017 (un-audited) AED '000	31 December 2016 (audited) AED '000
	Notes		
ASSETS			
Cash and balances with central banks		15,453,154	18,629,582
Deposits and balances due from banks		18,454,490	18,667,750
Other financial assets measured at fair value	5	2,031,957	2,419,199
Loans and advances measured at amortised cost	6	53,943,897	53,428,461
Islamic financing and investment products measured at amortised cost	7	7,572,089	7,565,063
Other financial assets measured at amortised cost	5	11,161,332	10,849,298
Other assets		10,412,258	9,552,316
Goodwill		14,880	15,365
Investment properties	8	520,864	520,864
Property and equipment	9	1,143,013	1,165,638
Total assets		120,707,934	122,813,536
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks	10	4,923,699	9,537,676
Customers' deposits	11	70,233,104	69,947,124
Islamic customers' deposits	12	6,176,833	7,093,383
Insurance and life assurance funds		1,691,747	1,510,758
Other liabilities		11,626,782	10,267,090
Medium-term loans	13	6,727,143	4,971,860
Total liabilities		101,379,308	103,327,891
Equity			
Issued and paid up capital	14	1,775,308	1,775,308
Statutory and legal reserves		899,351	899,351
General reserve		312,000	312,000
Cumulative translation adjustment		(292,571)	(298,562)
Investments revaluation reserve		(207,146)	(248,283)
Cash flow hedging reserve		-	7,624
Retained earnings		16,106,010	16,310,198
Equity attributable to owners of the Parent		18,592,952	18,757,636
Non-controlling interests	15	735,674	728,009
Total equity		19,328,626	19,485,645
Total liabilities and equity		120,707,934	122,813,536


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 2017 to 31 March 2017**

	Notes	3 months ended 31 March 2017 (un-audited) AED '000	3 months ended 31 March 2016 (un-audited) AED '000
Interest income		1,111,043	1,060,448
Income from Islamic financing and investment products		84,513	79,401
Total interest income and income from Islamic financing and investment products		1,195,556	1,139,849
Interest expense		(332,981)	(295,930)
Distribution to depositors – Islamic products		(35,023)	(26,508)
Net interest income and net income from Islamic products		827,552	817,411
Fee and commission income		736,058	789,386
Fee and commission expenses		(360,083)	(342,728)
Net fee and commission income		375,975	446,658
Net investment income		59,728	84,685
Other income, net		196,433	177,921
Operating income		1,459,688	1,526,675
General and administrative expenses	16	(569,091)	(603,571)
Allowances for impairment, net		(310,760)	(365,788)
Profit before taxes		579,837	557,316
Overseas income tax expense		(24,154)	(17,919)
Profit for the period		555,683	539,397
Attributed to:			
Owners of the Parent		546,190	531,813
Non-controlling interests		9,493	7,584
		555,683	539,397
Earnings per share (AED)	17	3.08	3.00

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 2017 to 31 March 2017**

	3 months ended 31 March 2017 (un-audited) AED '000	3 months ended 31 March 2016 (un-audited) AED '000
Profit for the period	555,683	539,397
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair value of financial assets measured at fair value through other comprehensive income, net	(946)	(10,314)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Cumulative translation adjustment	5,991	379
Cash flow hedges - fair value loss arising during the period	(7,624)	(5,284)
Total other comprehensive loss for the period	(2,579)	(15,219)
Total comprehensive income for the period	553,104	524,178
Attributed to:		
Owners of the Parent	545,439	518,567
Non-controlling interests	7,665	5,611
	553,104	524,178

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 2017 to 31 March 2017**

	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 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	-	-	-	-	-	-	531,813	531,813	7,584	539,397
Other comprehensive income/(loss)	-	-	-	379	(8,341)	(5,284)	-	(13,246)	(1,973)	(15,219)
Total comprehensive income for the period	-	-	-	379	(8,341)	(5,284)	531,813	518,567	5,611	524,178
Payment of dividends (Note 14)	-	-	-	-	-	-	(710,123)	(710,123)	(16,653)	(726,776)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	13,895	-	(13,895)	-	-	-
Balance at 31 March 2016 (un-audited)	1,775,308	896,595	312,000	(60,231)	(270,862)	3,937	14,920,307	17,577,054	706,076	18,283,130
Balance at 1 January 2017 (audited)	1,775,308	899,351	312,000	(298,562)	(248,283)	7,624	16,310,198	18,757,636	728,009	19,485,645
Profit for the period	-	-	-	-	-	-	546,190	546,190	9,493	555,683
Other comprehensive income/(loss)	-	-	-	5,991	882	(7,624)	-	(751)	(1,828)	(2,579)
Total comprehensive income for the period	-	-	-	5,991	882	(7,624)	546,190	545,439	7,665	553,104
Payment of dividends (Note 14)	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	40,255	-	(40,255)	-	-	-
Balance at 31 March 2017 (un-audited)	1,775,308	899,351	312,000	(292,571)	(207,146)	-	16,106,010	18,592,952	735,674	19,328,626

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 2017 to 31 March 2017**

	3 months ended 31 March 2017 (un-audited) AED '000	3 months ended 31 March 2016 (un-audited) AED '000
Cash flows from operating activities		
Profit before taxation for the period	579,837	557,316
Adjustments for:		
Depreciation of property and equipment	36,744	37,405
Allowances for impairment, net	310,760	365,788
Gain/(loss) on disposal of property and equipment	(4,478)	340
Fair value adjustment of other financial assets measured at FVTPL	(14,434)	2,219
Fair value adjustment of derivatives	2,618	3,933
Dividend income from other financial assets measured at FVTOCI	(9,019)	(11,235)
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with central banks for regulatory purposes and certificate of deposits with the central banks	349,837	(109,512)
Decrease/(increase) in deposits and balances due from banks maturing after three months	1,199,939	(547,533)
Decrease/(increase) in other financial assets measured at FVTPL	247,991	(627,160)
Increase in loans and advances measured at amortized cost	(801,242)	(194,701)
Increase in Islamic financing and investment products measured at amortized cost	(21,729)	(1,138,765)
(Increase)/decrease in other assets	(876,330)	206,376
Decrease in deposits and balances due to banks	(4,613,977)	(2,774,798)
Increase in customers' deposits	285,980	1,789,893
(Decrease)/Increase in Islamic customers' deposits	(916,550)	198,958
Increase in insurance and life assurance funds	180,989	53,344
Increase/(decrease) in other liabilities	1,359,692	(507,441)
Increase in medium-term loans	1,755,283	9,048
Overseas tax paid	(24,154)	(17,919)
Net cash used in operating activities	(972,243)	(2,704,444)
Cash flows from investing activities		
Purchase of property and equipment	(16,466)	(27,047)
Proceeds from sale of property and equipment	6,825	1,785
Net increase in non-trading investments	(159,295)	(179,305)
Dividend income received from other financial assets measured at FVTOCI	9,019	11,235
Net cash used in investing activities	(159,917)	(193,332)
Cash flows from financing activity		
Dividend paid	(710,123)	(726,776)
Net cash used in financing activity	(710,123)	(726,776)
Net decrease in cash and cash equivalents	(1,842,283)	(3,624,552)
Net foreign exchange difference	5,991	379
Cash and cash equivalents at beginning of the period (Note 18)	20,313,437	19,877,731
Cash and cash equivalents at end of the period (Note 18)	18,477,145	16,253,558

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 2017 to 31 March 2017**

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 2017, 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 & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	100.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

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

2.1 New and revised IFRS applied 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 2017, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2015)	1 January 2018
• Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
• Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 <i>Financial Instruments</i> and the forthcoming new insurance contracts standard.	1 January 2018

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. ➤ Impairment: The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. ➤ Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. ➤ Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. 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
• IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: ➤ there is consideration that is denominated or priced in a foreign currency; ➤ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ➤ the prepayment asset or deferred income liability is non-monetary.	1 January 2018

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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>
IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Amendments to IAS 40 <i>Investment Property</i>: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an 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 application.

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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 2016.

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 2016. In addition, results for the period from 1 January 2017 to 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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.

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

3.2 Basis of 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.

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets

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

Debt instruments, 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.

All other financial assets are subsequently measured at fair value.

Amortised cost and 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.

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

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

A financial asset is held for trading if:

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (as described above).

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrecoverable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 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 IAS 18 *Revenue* and is included in the net gain or loss described above.

Foreign exchange gains and losses

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

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

(i) Individually assessed loans

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

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Impairment of financial assets (continued)

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

(a) Performing commercial and other loans

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

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

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

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

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and 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.

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3. Summary of significant accounting policies (continued)

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 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 the condensed consolidated income statement, and is included in the other income line item.

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Hedge accounting (continued)

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the 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 lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

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

Mudaraba

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.5 Islamic financing and investment products (continued)

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 investing 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.

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.5 Islamic financing and investment products (continued)

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 property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the 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 2016.

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 2016.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

5. Other financial assets

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

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Other financial assets measured at fair value		
(i) Financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	878,739	1,113,396
Equities	217	215
Mutual and other funds	538,007	536,909
	<u>1,416,963</u>	<u>1,650,520</u>
(ii) Financial assets measured at fair value through other comprehensive income (FVTOCI)		
Equities	577,444	732,508
Mutual and other funds	37,550	36,171
	<u>614,994</u>	<u>768,679</u>
Total other financial assets measured at fair value	<u>2,031,957</u>	<u>2,419,199</u>
(iii) Financial assets measured at amortised cost		
Debt securities	11,161,332	10,849,298
Total other financial assets	<u>13,193,289</u>	<u>13,268,497</u>
(b) The geographic analysis of other financial assets is as follows:		
	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Balances within the U.A.E.	2,702,840	3,494,333
Balances outside the U.A.E.	10,490,449	9,774,164
	<u>13,193,289</u>	<u>13,268,497</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

5. Other financial assets (continued)

- (c) During the period, dividends received from financial assets measured at FVTOCI amounting to AED 9 million (period ended 31 March 2016: AED 11 million) were recognized in the condensed consolidated income statement.
- (d) Other financial assets measured at FVTOCI includes AED 38 million (31 December 2016: AED 36 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 price.
- (e) Other financial assets measured at FVTPL includes AED 228 million (31 December 2016: AED 225 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 quoted market prices.
- (f) At 31 December 2016, certain financial assets measured at amortised costs included debt securities aggregating to notional value of AED 623 million (fair value of AED 634 million) which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 606 million [Note 10 (b)]. During the period ended 31 March 2017, such Repo agreements have been settled.
- (g) Other financial assets measured at amortised cost include AED 428 million (31 December 2016: AED 1.4 billion) which represent investments reclassified from investments previously measured at FVTPL.

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 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Loans	49,611,739	48,720,940
Overdrafts	4,647,227	4,684,243
Credit cards	2,576,104	2,784,011
Other	519,761	459,800
	57,354,831	56,648,994
Less: Allowance for impairment	(3,410,934)	(3,220,533)
	53,943,897	53,428,461

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Manufacturing	3,933,548	3,864,320
Construction	6,265,165	5,503,953
Trade	8,917,607	9,010,501
Transport and communication	3,604,449	3,844,615
Services	5,843,341	5,698,416
Financial institutions	2,051,785	1,824,699
Personal	16,566,615	16,581,261
Government and related enterprises	10,172,321	10,304,888
Other	-	16,341
	57,354,831	56,648,994
Less: Allowance for impairment	(3,410,934)	(3,220,533)
	53,943,897	53,428,461

(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 2017 (un-audited) AED '000	Year ended 31 December 2016 (audited) AED '000
Balance at the beginning of the period/year	3,220,533	2,766,169
Impairment allowance for the period/year	143,575	903,225
Interest in suspense	38,454	117,174
Exchange rate and other adjustment	11,811	(46,986)
Recoveries during the period/year	-	(3,900)
Written off during the period/year	(3,439)	(515,149)
	3,410,934	3,220,533

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<u>Financing</u>		
Murabaha	3,647,801	3,694,743
Ijara	3,131,687	3,122,514
	6,779,488	6,817,257
<u>Investment</u>		
Mudaraba	227,809	232,355
Wakala	774,367	728,496
	1,002,176	960,851
Total	7,781,664	7,778,108
Less: Unearned income	(149,116)	(157,800)
Allowance for impairment	(60,459)	(55,245)
	7,572,089	7,565,063

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Manufacturing	731,398	605,964
Construction	1,844,102	1,988,459
Trade	867,919	799,626
Transport and communication	325,697	323,846
Services	1,791,660	1,835,386
Financial institutions	275,476	278,256
Personal	1,783,648	1,783,541
Government and related enterprises	161,764	163,030
Total	7,781,664	7,778,108
Less: Unearned income	(149,116)	(157,800)
Allowance for impairment	(60,459)	(55,245)
	7,572,089	7,565,063

- (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 2017 (un-audited) AED '000	Year ended 31 December 2016 (audited) AED '000
Balance at the beginning of the period/year	55,245	48,631
Impairment allowance for the period/year	4,934	19,775
Profit in suspense/(reversal of profit in suspense)	280	(145)
Written off during the period/year	-	(13,016)
Balance at the end of the period/year	60,459	55,245

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

8. Investment properties

	31 March 2017 (un-audited) AED '000	31 December 2016 (audited) AED '000
<i>At fair value</i>		
Balance at beginning of the period/year	520,864	527,525
Change in fair value during the period/year	-	(2,161)
Disposals during the period/year	-	(4,500)
	520,864	520,864

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

The fair value of investment properties as at 31 March 2017 and 31 December 2016 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 16 million (period ended 31 March 2016: AED 27 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 2 million (period ended 31 March 2016: AED 2 million).

10. Deposits and balances due to banks

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

	31 March 2017 (un-audited) AED '000	31 December 2016 (audited) AED '000
Time	2,580,875	6,348,817
Demand	1,065,242	1,538,551
Overnight	1,277,582	1,650,308
	4,923,699	9,537,676

(b) Included in Time Deposits as at 31 December 2016, was an amount of AED 606 million representing liability under repurchase agreements with banks ("Repo"). During the period, the Group settled this Repo which were collateralised by debt securities measured at amortised cost aggregating to a notional value of AED 623 million (fair value of AED 634 million) [Note 5 (f)].

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

11. Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Current and other accounts	40,428,470	41,053,475
Saving accounts	3,489,518	3,406,698
Time deposits	26,315,116	25,486,951
	70,233,104	69,947,124

12. Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Current and other accounts	3,443,594	3,784,930
Saving accounts	141,464	124,373
Time deposits	2,591,775	3,184,080
	6,176,833	7,093,383

13. Medium-term loans

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Medium term notes [13 (a)]	4,890,643	3,135,360
Syndicated loan [13 (b)]	1,836,500	1,836,500
	6,727,143	4,971,860

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

13. Medium-term loans (continued)

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

Due date	Interest rate	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
18 January 2017	3 months Libor + 1.000%	-	91,825
24 January 2017	3 months Libor + 1.125%	-	1,020,726
6 February 2017	2.750%	-	121,075
30 March 2017	1.880%	-	98,069
30 March 2017	0.220%	-	64,760
27 April 2017	0.220%	40,836	38,856
3 May 2017	0.400%	40,635	39,829
11 May 2017	1.830%	37,832	37,832
6 June 2017	3 months Libor + 1.750%	55,096	55,096
1 August 2017	2.000%	312,205	312,205
4 August 2017	3 months Libor + 1.050%	73,460	73,460
16 August 2017	0.000%	113,940	111,412
24 August 2017	2.000%	183,650	183,650
19 September 2017	0.100%	34,030	32,380
12 October 2017	0.150%	102,090	97,140
18 October 2017	1.860%	91,825	-
20 November 2017	2.100%	194,669	194,669
29 November 2017	0.200%	101,588	99,574
30 November 2017	2.150%	130,024	130,024
7 December 2017	2.220%	40,403	40,403
11 December 2017	0.250%	34,030	32,380
11 January 2018	2.300%	275,475	-
11 January 2018	3 months Libor + 1.100%	36,730	-
11 January 2018	0.280%	60,953	-
18 January 2018	2.300%	91,825	-
25 January 2018	3.040%	58,057	-
29 January 2018	0.205%	40,836	-
8 February 2018	2.350%	132,228	-
8 February 2018	2.360%	367,300	-
14 February 2018	2.350%	183,650	-
15 February 2018	3 months Libor + 1.080%	36,730	-
6 March 2018	2.310%	315,878	-
8 March 2018	0.180%	68,060	-
12 March 2018	2.370%	367,300	-
13 March 2018	2.370%	51,422	-
15 March 2018	2.370%	77,133	-
15 March 2018	0.240%	40,836	-
20 March 2018	2.410%	40,403	-
22 March 2018	2.410%	59,503	-
22 March 2018	2.410%	183,650	-
22 March 2018	0.300%	68,060	-
27 March 2018	0.300%	37,433	-
29 March 2018	0.200%	68,060	-
4 April 2018	2.390%	36,730	-
23 April 2018	3 months Libor + 1.050%	55,095	55,095
21 August 2018	0.350%	48,760	-
7 September 2018	4.100%	137,623	135,790
21 October 2019	3 months Libor + 1.400%	36,730	36,730
19 December 2019	0.500%	34,030	32,380
18 January 2020	3 months Libor + 1.450%	110,190	-
28 February 2021	3 months Libor + 1.600%	183,650	-
		4,890,643	3,135,360

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

13. Medium-term loans (continued)

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 2017, new medium-term notes of AED 3.1 billion were issued and AED 1.4 billion of medium-term notes were redeemed.

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

(b) During the year ended 31 December 2014, the Group had signed a USD 500 million (AED 1.8 billion) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of 3 years and is payable upon maturity in July 2017. 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

As at 31 March 2017, 177,530,823 ordinary shares of AED 10 each (31 December 2016: 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 6 March 2017, the shareholders approved a cash dividend of 40% (2015: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (2015: AED 710 million).

15. Non-controlling interests

	3 months ended 31 March 2017 (un-audited) AED'000	Year ended 31 December 2016 (audited) AED'000
Balance at the beginning of the period/year	728,009	717,118
Profit for the period/year	9,493	27,499
Other comprehensive loss for the period/year	(1,828)	47
Dividends paid	-	(16,655)
Balance at the end of the period/year	735,674	728,009

16. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 35 million for the period from 1 January 2017 to 31 March 2017 (period ended 31 March 2016: AED 34 million).

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

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:

	3 months ended 31 March 2017 (un-audited)	3 months ended 31 March 2016 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	546,190	531,813
Weighted average number of shares in issue	177,530,823	177,530,823
Basic earnings per share (AED)	3.08	3.00

There were no potentially dilutive shares as at 31 March 2017 and 31 March 2016.

18. Cash and cash equivalents

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

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000	31 March 2016 (un-audited) AED'000
Cash on hand	961,500	1,049,505	1,026,251
Current accounts and other balances with central banks	4,036,209	6,774,795	4,700,083
Deposits and balances due from banks maturing within 3 months	13,479,436	12,489,137	10,527,224
	18,477,145	20,313,437	16,253,558

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

19. Contra accounts

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

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
<i>Contra accounts (memoranda)</i>		
Guarantees	38,624,977	38,285,010
Letters of credit	4,651,470	4,743,855
	<u>43,276,447</u>	<u>43,028,865</u>

20. Derivative financial instruments

	31 March 2017 (un-audited)		
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	199,902	157,610	48,336,205
Foreign exchange options (bought)	-	19,726	3,536,908
Foreign exchange options (sold)	19,735	-	3,518,398
Interest rate swaps	405,264	398,502	27,938,210
Credit default swaps	-	267	20,000
Futures contracts purchased (Customer)	-	1,686	131,387
Futures contracts sold (Customer)	-	488	110,179
Futures contracts sold (Bank)	1,686	-	131,387
Futures contracts purchased (Bank)	488	-	110,179
	<u>627,075</u>	<u>578,279</u>	<u>83,832,853</u>

31 March 2017 (un-audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Other assets</i>				
Positive fair value of derivatives	-	627,075	-	627,075
	<u>-</u>	<u>627,075</u>	<u>-</u>	<u>627,075</u>
<i>Other liabilities</i>				
Negative fair value of derivatives	-	578,279	-	578,279
	<u>-</u>	<u>578,279</u>	<u>-</u>	<u>578,279</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

20. Derivative financial instruments (continued)

	<u>31 December 2016 (audited)</u>		
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for Trading:			
Forward foreign exchange contract	379,705	452,175	46,706,024
Foreign exchange options (bought)	-	35,128	2,180,458
Foreign exchange options (sold)	37,591	-	2,082,554
Interest rate swaps	389,820	383,051	25,663,298
Credit default swaps	-	225	20,000
Futures contracts purchased (Customer)	-	990	119,422
Futures contracts sold (Customer)	660	-	122,862
Futures contracts sold (Bank)	990	-	119,422
Futures contracts purchased (Bank)	-	660	122,862
	<u>808,766</u>	<u>872,229</u>	<u>77,136,902</u>
Held as cash flow hedges:			
Cross Currency Swaps	55,152	-	270,735
	<u>863,918</u>	<u>872,229</u>	<u>77,407,637</u>

31 December 2016 (audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Other assets</i>				
Positive fair value of derivatives	-	863,918	-	863,918
<i>Other liabilities</i>				
Negative fair value of derivatives	-	872,229	-	872,229

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

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

21. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three month periods ended 31 March 2017 and 2016.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

22. Related party transactions

- (a) Certain “related parties” (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family members who own 88.06% (31 December 2016: 87.76%) of the issued and paid up capital. The remaining shares are widely held by other parties.
- (c) Related party balances included in the condensed consolidated statement of financial position are as follows:

	31 March 2017 (un-audited) AED’000	31 December 2016 (audited) AED’000
Loans and advances measured at amortised cost	2,424,154	2,586,403
Customers’ deposits	1,424,520	1,216,323
Letters of credit and guarantees	1,321,721	1,163,375

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

	3 months ended 31 March 2017 (un-audited) AED ’000	3 months ended 31 March 2016 (un-audited) AED ’000
Interest income	24,226	15,009
Interest expense	1,867	1,846
Other income, net	25,827	26,650

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

23. Segmental information

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

Reportable segments

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

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

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

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

Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)

23. Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2017 to 31 March 2017 (un-audited)						Head office AED'000	Total AED'000
	Domestic corporate AED'000	Domestic Retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000		
Net interest income and earnings from Islamic products	200,158	259,171	6,181	175,096	69,908	10,999	106,039	827,552
Other income, net	93,849	113,935	131,227	162,420	29,545	100,336	824	632,136
Total operating income	294,007	373,106	137,408	337,516	99,453	111,335	106,863	1,459,688
General and administrative expenses								(569,091)
Allowances for impairment								(310,760)
Profit before taxes								579,837
Overseas income tax expense								(24,154)
Profit for the period								555,683
Attributed to:								
Owners of the parent								546,190
Non-controlling interests								9,493
								555,683
31 March 2017 (un-audited)								
Segment Assets	31,467,321	14,001,391	16,856,713	28,717,357	8,886,737	4,541,483	16,236,932	120,707,934
Segment Liabilities	30,905,241	24,922,106	7,546,158	20,196,639	6,657,660	2,560,749	8,590,755	101,379,308

Notes to the condensed consolidated financial statements for the period from 1 January 2017 to 31 March 2017 (continued)

23. Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2016 to 31 March 2016 (un-audited)						Head office AED'000	Total AED'000
	Domestic corporate AED'000	Domestic Retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000		
Net interest income and earnings from Islamic products	209,308	289,066	11,457	149,484	71,893	11,158	75,045	817,411
Other income, net	113,563	159,554	135,865	174,946	35,377	88,937	1,022	709,264
Total operating income	322,871	448,620	147,322	324,430	107,270	100,095	76,067	1,526,675
General and administrative expenses Allowances for impairment								(603,571) (365,788)
Profit before taxes Overseas income tax expense								557,316 (17,919)
Profit for the period								539,397
Attributed to: Owners of the parent Non-controlling interests								531,813 7,584
								539,397
31 December 2016 (audited)								
Segment Assets	30,910,557	13,579,281	17,004,042	32,505,293	8,797,296	4,702,638	15,314,429	122,813,536
Segment Liabilities	29,624,000	24,153,152	7,467,659	23,155,000	8,450,303	2,577,053	7,900,724	103,327,891

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

23. Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		Non-current assets **	
	3 months ended 31 March 2017 (un-audited) AED'000	3 months ended 31 March 2016 (un-audited) AED'000	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
U.A.E.	1,185,249	1,262,811	1,633,024	1,654,537
Other Middle East countries	206,337	203,232	25,371	26,987
O.E.C.D.	53,742	48,026	4,159	3,625
Other countries	14,360	12,606	16,203	16,718
	1,459,688	1,526,675	1,678,757	1,701,867

* 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 2017 to 31 March 2017 (continued)**

24. Fair value of financial instruments

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

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

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2016.

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

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

Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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)

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31-Mar-17 (unaudited) AED'000	31-Dec-16 (audited) AED'000				
Financial assets measured at FVTPL						
Quoted debt investments	318,096	369,195	Level 1	Quoted bid prices in an active market	None	Not Applicable
Mutual and other funds	248,458	262,351	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	497,763	680,364	Level 2	Based on the recent similar transaction in market	Similar market transaction	Higher the price of the interest rate lower the value of bond.
Unquoted debt investments	62,880	63,837	Level 3	Based on discounted cashflow model	Interest rate	Higher the interest rate lower the value of bond.
Mutual and other funds	289,549	274,558	Level 3	Net assets values of the funds	Net assets value	Higher the net asset value, higher the fair value.
Unquoted equity investments	217	215	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,416,963	1,650,520				

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (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)

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31-Mar-17 (unaudited) AED'000	31-Dec-16 (audited) AED'000				
Financial assets measured at FVTOCI						
Quoted equity investments	373,500	384,214	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	203,944	348,294	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Mutual and Other funds	37,550	36,171	Level 1	Quoted bid prices in an active market	None	Not Applicable
	614,994	768,679				
	2,031,957	2,419,199				

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 2017 to 31 March 2017 (continued)**

24. Fair value of financial instruments (continued)

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

	31 March 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Balance at the beginning of the period/year	338,610	395,834
Purchases	28,470	97,250
Disposals/matured	(29,042)	(158,298)
Change in fair value	14,608	3,824
Balance at the end of the period/year	352,646	338,610

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

	31 March 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Balance at the beginning of the period/year	348,294	216,650
Purchases	-	106,165
Disposals	(148,959)	(16,643)
Change in fair value	4,609	42,122
Balance at the end of the period/year	203,944	348,294

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

24. Fair value of financial instruments (continued)

	Carrying Amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
31 March 2017 (un-audited)					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	11,161,332	7,516,960	1,564,467	2,067,228	11,148,655
31 December 2016 (audited)					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	10,849,298	7,070,188	1,237,774	2,450,533	10,758,495

	Carrying Amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
31 March 2017 (un-audited)					
<i>Financial liabilities</i>					
Medium-term notes	4,890,643	1,474,195	-	3,406,469	4,880,664
31 December 2016 (audited)					
<i>Financial liabilities</i>					
Medium-term notes	3,135,360	1,786,183	-	1,340,883	3,127,066

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 March 2017 and 2016:

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)**

24. Fair value of financial instruments (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
31 March 2017 (un-audited)				
Other financial assets measured at fair value	141,696	(141,696)	61,499	(61,499)
31 March 2016 (un-audited)				
Other financial assets measured at fair value	389,275	(389,275)	63,789	(63,789)

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 as per Basel II.

	31 March 2017 (un-audited) AED'000	31 December 2016 (audited) AED'000
Capital base		
Tier 1 capital	18,766,875	18,964,765
Tier 2 capital	1,061,588	1,077,165
Total capital base (A)	19,828,463	20,041,930
Risk-weighted assets		
Credit risk	103,461,138	106,007,825
Market risk	2,062,105	2,498,202
Operational risk	10,367,924	10,367,924
Total risk-weighted assets (B)	115,891,167	118,873,951
Risk asset ratio (%) [(A)/(B) x 100]	17.11%	16.86%

**Notes to the condensed consolidated financial statements
for the period from 1 January 2017 to 31 March 2017 (continued)****25. Capital adequacy ratio (continued)**

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer is 11.75% for year 2017, which will increase to 12.375% and 13.0% for year 2018 and year 2019 respectively.

During 2017, Central Bank will issue detailed guidelines for calculation of Capital requirement as per Basel III.

26. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 43 were approved by the Board of Directors on 12 April 2017.