

MASHREQBANK PSC GROUP

**REVIEW REPORT AND INTERIM
CONSOLIDATED FINANCIAL INFORMATION
FOR THE PERIOD FROM JANUARY 1, 2010
TO JUNE 30, 2010**

Mashreqbank psc Group

Review Report and Interim Consolidated Financial Information For the period from January 1, 2010 to June 30, 2010

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Ref.: 7848CFS10 – Q2 June 30

Report on Review of Interim Consolidated Financial Information

To the Board of Directors of
Mashreqbank psc
Dubai
United Arab Emirates

We have reviewed the accompanying condensed consolidated statement of financial position of **Mashreqbank psc and its Subsidiaries** (the “**Group**”) as of June 30, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the period from January 1, 2010 to June 30, 2010. The management of the Group is responsible for the preparation and fair presentation of this interim consolidated financial information in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’ (“IAS 34”). Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of review

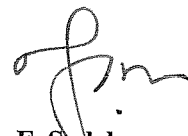
We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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 consolidated financial information is not prepared, in all material respects in accordance with IAS 34.

Dubai
July 29, 2010

Deloitte & Touche (M.E.)



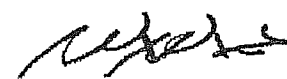
Anis F. Sadek
Partner
Registration No. 521

Condensed Consolidated Statement of Financial Position
As of June 30, 2010
(In Thousand Arab Emirates Dirhams)

	Note	June 30, 2010 (un-audited)	December 31, 2009 (audited)
ASSETS			
Cash and balances with central banks		16,228,092	20,176,958
Deposits and balances due from banks		9,210,435	8,261,056
Other financial assets measured at fair value	3	2,008,359	2,211,517
Loans and advances measured at amortised cost	4	38,035,729	42,120,827
Islamic financing and investment products measured at amortised cost	5	5,507,028	5,609,289
Other financial assets measured at amortised cost	3	8,468,227	9,364,884
Interest receivable and other assets		5,238,403	5,428,702
Investment properties		233,649	233,649
Property and equipment	6	1,424,737	1,215,062
Total assets		86,354,659	94,621,944
LIABILITIES			
Deposits and balances due to banks		5,818,777	6,971,668
Repurchase agreements with banks		7,733,250	8,468,768
Customers' deposits		44,189,881	50,796,768
Islamic customers' deposits		4,147,610	2,861,019
Insurance and life assurance funds		909,598	858,587
Interest payable and other liabilities		5,612,339	5,629,760
Medium-term loans	7	5,950,783	7,178,299
Long-term loans		9,434	9,583
Total liabilities		74,371,672	82,774,452
EQUITY			
Paid up capital	8	1,690,770	1,610,257
Statutory and legal reserves		805,981	805,129
General reserves		312,000	312,000
Cumulative translation adjustment		(26,659)	(25,018)
Investments revaluation reserve		(339,610)	(279,735)
Retained earnings		8,997,092	8,850,576
Equity attributable to equity holders of the parent		11,439,574	11,273,209
Non controlling interests		543,413	574,283
Total equity		11,982,987	11,847,492
Total liabilities and equity		86,354,659	94,621,944

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

Abdulla Ahmad Al Ghurair
Chairman



Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Condensed Consolidated Statement of Income (Un-audited)
For the period from January 1, 2010 to June 30, 2010
(In Thousand Arab Emirates Dirhams)

	Note	<u>3 months ended June 30,</u>		<u>6 months ended June 30,</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
		(un-audited)	(un-audited)	(un-audited)	(un-audited)
Interest income		1,023,494	1,204,941	2,080,233	2,446,507
Income from Islamic financing and investment products		66,235	82,466	136,200	173,331
Total interest income and income from Islamic financing and investment products		1,089,729	1,287,407	2,216,433	2,619,838
Interest expense		(475,588)	(745,706)	(977,218)	(1,453,323)
Distribution to depositors – Islamic products		(35,834)	(60,429)	(67,858)	(104,266)
Net interest income and income from Islamic products net of distribution to depositors		578,307	481,272	1,171,357	1,062,249
Fee and commission income		479,335	532,263	1,010,389	1,042,084
Fee and commission expense		(205,714)	(177,524)	(377,770)	(348,677)
Net fee and commission income		273,621	354,739	632,619	693,407
Net investment (loss)/income		(5,102)	92,595	46,938	(10,779)
Other income		221,194	295,801	454,922	706,327
Operating income		1,068,020	1,224,407	2,305,836	2,451,204
General and administrative expenses	9	(432,157)	(440,159)	(896,768)	(920,116)
Allowances for impairment		(407,954)	(319,293)	(892,029)	(551,354)
Profit before taxes		227,909	464,955	517,039	979,734
Overseas income tax expense		(5,056)	(4,305)	(7,951)	(7,495)
Profit for the period		222,853	460,650	509,088	972,239
Attributed to:					
Shareholders of the parent		202,571	434,870	453,351	918,988
Non controlling interests		20,282	25,780	55,737	53,251
		222,853	460,650	509,088	972,239
Earnings per share	10	AED 1.20	AED 2.57	AED 2.68	AED 5.44

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

Condensed Consolidated Statement of Comprehensive Income (Un-audited)
For the period from January 1, 2010 to June 30, 2010
(In Thousand Arab Emirates Dirhams)

	<u>3 months ended June 30,</u>		<u>6 months ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Profit for the period	222,853	460,650	509,088	972,239
Other comprehensive income				
Changes in fair value of other financial assets measured at FVTOCI	(37,850)	93,950	(74,914)	31,457
Cumulative translation adjustment	(2,043)	15,724	(1,641)	11,219
Total other comprehensive (loss) income for the period	(39,893)	109,674	(76,555)	42,676
Total comprehensive income for the period	182,960	570,324	432,533	1,014,915
Attributed to:				
Shareholders of the parent	173,112	532,035	407,902	983,922
Non controlling interests	9,848	38,289	24,631	30,993
	182,960	570,324	432,533	1,014,915

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

Condensed Consolidated Statement of Changes in Equity (Un-audited)
For the period from January 1, 2010 to June 30, 2010
(In Thousand Arab Emirates Dirhams)

	Paid up capital	Statutory and legal reserves	General reserves	Cumulative translation adjustment	Investments revaluation reserve	Retained earnings	Attributable to share-holders of the parent	Non controlling interests	Total
Balance at December 31, 2008 - audited	1,463,870	740,734	312,000	(33,932)	(649,634)	8,231,655	10,064,693	617,706	10,682,399
Effect of IFRS 9 – Note 2	-	-	-	-	285,549	(24,374)	261,175	(15)	261,160
Balance at January 1, 2009 (restated) - audited	1,463,870	740,734	312,000	(33,932)	(364,085)	8,207,281	10,325,868	617,691	10,943,559
Profit for the period	-	-	-	-	-	918,988	918,988	53,251	972,239
Other comprehensive income for the period	-	-	-	11,219	53,715	-	64,934	(22,258)	42,676
Effect of IFRS 9 from January 1, 2009 to June 30, 2009	-	-	-	-	(31,320)	31,320	-	-	-
Total comprehensive income for the period (restated)	-	-	-	11,219	22,395	950,308	983,922	30,993	1,014,915
Transfer to statutory and legal reserve	-	1,129	-	-	-	(1,129)	-	-	-
Payment of dividends	-	-	-	-	-	(146,387)	(146,387)	(69,377)	(215,764)
Bonus shares issued during the period	146,387	-	-	-	-	(146,387)	-	-	-
Balance at June 30, 2009 - un-audited (restated)	1,610,257	741,863	312,000	(22,713)	(341,690)	8,863,686	11,163,403	579,307	11,742,710
Balance at December 31, 2009 - audited	1,610,257	805,129	312,000	(25,018)	(279,735)	8,850,576	11,273,209	574,283	11,847,492
Profit for the period	-	-	-	-	-	453,351	453,351	55,737	509,088
Other comprehensive loss for the period	-	-	-	(1,641)	(43,808)	-	(45,449)	(31,106)	(76,555)
Total comprehensive income for the period	-	-	-	(1,641)	(43,808)	453,351	407,902	24,631	432,533
Transfer from investment revaluation reserves to retained earnings	-	-	-	-	(16,067)	16,067	-	-	-
Transfer to statutory and legal reserve	-	852	-	-	-	(852)	-	-	-
Payment of dividends	-	-	-	-	-	(241,537)	(241,537)	(55,501)	(297,038)
Bonus shares issued during the period	80,513	-	-	-	-	(80,513)	-	-	-
Balance at June 30, 2010 - un-audited	1,690,770	805,981	312,000	(26,659)	(339,610)	8,997,092	11,439,574	543,413	11,982,987

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

Condensed Consolidated Statement of Cash Flows (Un-audited)
For the period from January 1, 2010 to June 30, 2010
(In Thousand Arab Emirates Dirhams)

	6 months ended June 30,	
	2010	2009
	(un-audited)	(un-audited)
Cash flows from operating activities		
Profit for the period	509,088	972,239
Adjustments:		
Depreciation of property and equipment	71,745	50,450
Fair value adjustment of other financial assets measured at FVTPL	17,752	(37,045)
Fair value adjustment of derivatives	(16,537)	-
Fair value adjustment of investment property	-	(74,450)
Allowances for impairment	892,029	551,354
(Gain)//loss on sale of property and equipment	(9,513)	797
Changes in operating assets and liabilities:		
Decrease in deposits with central banks for regulatory purposes	250,293	96,106
Decrease in deposits and balances due from banks maturing after three months	423,205	1,722,010
Decrease in loans and advances measured at amortized cost	3,266,310	2,668,436
Decrease in Islamic financing and investing products measured at amortized cost	93,658	270,687
Decrease in interest receivable and other assets	206,836	1,983,746
Decrease in other financial assets measured at FVTPL	101,840	92,938
Decrease in deposits and balances due to banks	(1,152,891)	(2,856,253)
(Decrease)/increase in customers' deposits	(6,606,887)	4,151,296
Increase in Islamic customers' deposits	1,286,591	1,126,341
Increase in insurance and life assurance funds	51,011	90,903
Decrease in interest payable and other liabilities	(17,421)	(747,885)
(Decrease)/increase in medium-term loans	(1,227,516)	1,944,274
Decrease in long-term loans	(149)	(1,793)
Decrease in repurchase agreements with banks	(735,518)	(1,087,029)
Net cash (used in)/from operating activities	(2,596,074)	10,917,122
Cash flows from investing activities		
Purchase of property and equipment	(294,730)	(116,614)
Proceeds from sale of property and equipment	22,823	905
Net decrease in the non-trading investments	897,547	972,885
Net cash from investing activities	625,640	857,176
Cash flows from financing activities		
Dividend paid	(297,038)	(215,764)
Net cash used in financing activities	(297,038)	(215,764)
Net (decrease)/increase in cash and cash equivalents	(2,267,472)	11,558,534
Net foreign exchange difference	(1,641)	11,219
Cash and cash equivalent at beginning of the period	23,492,075	8,270,818
Cash and cash equivalent at end of the period (Note 11)	21,222,962	19,840,571

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

Notes to the Condensed Consolidated Financial Statements
For the period from January 1, 2010 to June 30, 2010

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 June 30, 2010, Mashreqbank psc Group (the “Group”) comprises the Bank and its subsidiaries as follows:

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	98	Finance company.
Oman Insurance Company (PSC)	United Arab Emirates	63.65	63.65	Insurance company.
Mindscape Information Technology L.L.C.	United Arab Emirates	99	99	Software/Application provider.
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage.
Injaz Services FZ LLC	United Arab Emirates	100	100	Service provider.
Al-Badr Islamic Finance (PJSC)	United Arab Emirates	99.70	99.70	Islamic finance company.
Mashreq Capital (DIFC) Limited	United Arab Emirates	100	100	Brokerage, asset management & fund management.
Al Yamama Services FZ LLC	United Arab Emirates	100	100	Service provider.
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund Manager.
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund Manager.
Bracebridge Limited	British Virgin Islands	*	100	Special purpose vehicle.
Orriston Limited	British Virgin Islands	*	100	Special purpose vehicle.

* These special purpose vehicle are considered to be subsidiaries by virtue of control.

For the purpose of the condensed consolidated financial statements, the results and financial position of each entity are expressed in U.A.E. Dirham (AED), which is the functional currency of the Group, and the presentation currency for the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

1. General information (continued)

Standards and Interpretations in issue but not yet effective

At the date of authorisation of these condensed consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
New Standards and amendments to Standards:	
• IAS 32 (revised) <i>Financial Instruments: Presentation</i> – Amendments relating to classification of Rights Issue	February 1, 2010
• IAS 24 <i>Related Party Disclosures</i> – Amendments on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	January 1, 2011
New Interpretations and amendments to Interpretations:	
• IFRIC 19: <i>Extinguishing Financial Liabilities with Equity Instruments</i>	July 1, 2010
• Amendment to IFRIC 14: IAS 19: <i>The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction</i>	January 1, 2011

Management anticipates that these amendments will be adopted in the Group's condensed consolidated financial statements for the initial period when they become effective. Management have not yet had an opportunity to consider the potential impact of the adoption of these amendments.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

2. Significant accounting policies

Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and investment property, which are carried 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 No. 34: *Interim Financial Reporting*, issued by the International Accounting Standard Board 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 December 31, 2009.

All significant inter-group company balances, income and expense items are eliminated on consolidation.

The condensed financial statements of subsidiaries are prepared using similar policies as those used by the Bank.

This condensed consolidated financial statements do not include all the information required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2009. In addition, results for the period from January 1, 2010 to June 30, 2010 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2010.

The Group adopted IFRS 9 Financial Instruments (IFRS 9) in 2009 in advance of its effective date. The Standard was applied retrospectively and the Group had chosen the limited exemption not to restate comparative information in the year of initial application. As a result, the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application were recognised in the opening retained earnings (or other component of equity, as appropriate).

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

2. Significant accounting policies (continued)**Significant judgments and sources of estimation 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 this 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 were applied to the consolidated financial statements for the year ended December 31, 2009, except for:

Collectively assessed loans and advances

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

As of the date of this condensed consolidated financial statements, management have also considered that is appropriate to include in this category, in accordance with the guidance provided by U.A.E. Central Bank Notice No. 2410/2010 dated April 22, 2010, certain loan exposures that are currently subjected to restructuring negotiations, until such time as sufficient information on the restructuring terms and arrangements is available.

Apart from the above addition, no other changes in the policy for the collectively assessed loans and advances took place during the period.

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 December 31, 2009.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

3. Other financial assets

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

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
Other financial assets measured at fair value		
(i) Investments measured at fair value through profit and loss (FVTPL)		
Debt securities	210,261	306,516
Equities	97,661	114,443
Funds	<u>162,338</u>	<u>168,893</u>
	470,260	589,852
(ii) Investments measured at fair value through other comprehensive income (FVTOCI)		
Equities	1,064,067	1,114,060
Funds	474,032	507,605
	<u>1,538,099</u>	<u>1,621,665</u>
Total other financial assets measured at fair value	<u>2,008,359</u>	<u>2,211,517</u>
Other financial assets measured at amortized cost		
Debt securities	8,468,227	9,364,884
Total other financial assets	<u><u>10,476,586</u></u>	<u><u>11,576,401</u></u>
<u>Geographic regions:</u>		
- within U.A.E.	8,338,755	9,103,097
- outside U.A.E.	2,137,831	2,473,304
	<u><u>10,476,586</u></u>	<u><u>11,576,401</u></u>

During the period from January 1, 2010 to June 30, 2010, dividends received from financial assets measured at FVTOCI amounting to AED 36 million were recognized as investment income in the condensed consolidated statement of income.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

4. Loans and advances measured at amortized cost

The analysis of the Group's loans and advances measured at amortized cost is as follows:

	June 30, 2010 AED'000 (un-audited)	December 31, 2009 AED'000 (audited)
Loans	32,965,357	35,593,302
Overdrafts	5,535,768	6,227,057
Credit cards	1,968,086	2,100,231
Other	161,295	185,107
	<u>40,630,506</u>	<u>44,105,697</u>
Less: Allowance for impairment	(2,594,777)	(1,984,870)
	<u>38,035,729</u>	<u>42,120,827</u>
<u>Analysis by economic activities:</u>		
Personal	10,838,454	11,361,082
Government/Public Sector	8,312,418	8,209,706
Trade	5,848,247	6,674,039
Services	4,875,894	4,798,771
Construction	4,136,081	4,790,278
Banks and Financial Institutions	2,879,233	2,769,775
Manufacturing	2,217,696	3,782,983
Transport and communication	1,491,151	1,640,053
Other	31,332	79,010
	<u>40,630,506</u>	<u>44,105,697</u>
Less: Allowance for impairment	(2,594,777)	(1,984,870)
	<u>38,035,729</u>	<u>42,120,827</u>

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

4. Loans and advances measured at amortized cost (continued)

Total outstanding balance of restructured loans as of June 30, 2010 amounted to AED 1.93 billion (2009: AED 1.05 billion).

The movement in the allowance for impairment of loans and advances measured at amortized cost during the period was as follows:

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
Balance at the beginning of the period/year	1,984,870	1,118,809
Impairment allowance for the period/year	521,338	868,637
Interest in suspense	138,189	111,399
Recoveries	(49,620)	(113,975)
Balance at the end of the period/year	2,594,777	1,984,870

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

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

5. Islamic financing and investment products measured at amortized cost

The analysis of the Group's Islamic financing and investment products measured at amortized cost is as follows:

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
<u>Financing</u>		
Murabaha	1,964,236	2,311,550
Ijara	2,378,136	1,826,286
	<u>4,342,372</u>	<u>4,137,836</u>
<u>Investing</u>		
Musharakah	865,659	1,162,174
Mudaraba	342,493	64,514
Wakala	-	276,461
	<u>1,208,152</u>	<u>1,503,149</u>
Total	5,550,524	5,640,985
Less: Unearned income	(12,051)	(16,732)
Allowance for impairment	(31,445)	(14,964)
	<u><u>5,507,028</u></u>	<u><u>5,609,289</u></u>

6. Property and equipment

During the period from January 1, 2010 to June 30, 2010, the Group purchased approximately AED 294.7 million (2009: AED 116.6 million) of various types of property and equipment and disposed off property and equipment with a net book value of AED 13.3 million (2009: AED 1.7 million) for proceeds of AED 22.8 million (2009: AED 0.9 million).

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

7. Medium-term Loans

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
Tier 2 loan from the Ministry of Finance of the U.A.E.	3,443,593	3,443,593
Medium term floating rate notes	2,507,190	3,734,706
	5,950,783	7,178,299

(a) Tier 2 loan from the Ministry of Finance of the U.A.E.

The Group opted to re-categorize Ministry of Finance loan amounting to AED 3.44 billion received from the Federal Government in 2008 to Tier 2 qualifying loan ("Tier 2 loan"). The re-categorization process has been approved by the shareholders in the Extraordinary General Meeting held on March 15, 2009. The Tier 2 loan has been extended to mature in June 2016 as per the revised agreement between the Group and Ministry of Finance. Interest is paid every three months and calculated at a rate of 4.00% for the first and second year, 4.50% for the third year, 5.00% for the fourth year and 5.25% for the last three years.

(b) Medium term floating rate notes

The maturities of the bonds (FRN) issued under the programme are as follows:

Due date	Interest rate	June 30, 2010	December 31, 2009
		AED'000	AED'000
		(un-audited)	(audited)
March 23, 2010	3 months Libor + 0.40%	-	1,193,725
April 6, 2011	3 months Libor + 0.38%	1,101,900	1,101,900
January 24, 2017 [see (b)-2]	3 months Libor + 0.63%	1,405,290	1,439,081
		2,507,190	3,734,706

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

7. Medium-term Loans (continued)

(b) Medium term floating rate notes (continued)

- 1- During 2004, the Bank established a Euro Medium Term Note (EMTN) programme for US\$ 750 million (AED 2.75 billion). The EMTN programme was increased to US\$ 2 billion (AED 7.35 billion) on March 21, 2006. On March 15, 2010, the EMTN programme was further increased to US\$ 5 billion (AED 18.38 billion).
- 2- AED 1.41 billion is a subordinated floating rate note ("FRN") and qualifies for Tier 2 subordinated loan capital for first 5 years till 2012 and thereafter it will be amortized at the rate of 20% per annum for next five years until 2017 for capital adequacy calculation purposes. However, the FRN is callable in 5 years (i.e. in 2012 if not redeemed on completion of 5 years, there is provision of step up in coupon rate by 0.5% for next 5 years). This subordinated FRN has been approved by U.A.E. Central Bank as Tier 2 capital.

8. Paid up capital

During the period from January 1, 2010 to June 30, 2010, a proposed bonus share distribution of 1 share for each 20 shares on account of 2009 and a 15% cash dividend amounting to AED 242 million was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting.

As of June 30, 2010, 169,076,975 ordinary shares of AED 10 each (December 31, 2009: 161,025,690 ordinary shares of AED 10 each) were issued and were fully paid up.

9. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 36 million for the period from January 1, 2010 to June 30, 2010 (2009: AED 53 million).

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

10. Earnings per share

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

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
	<u>(un-audited)</u>	<u>(un-audited)</u>
Profit for the period (AED'000)		
(Attributed to shareholders of the parent)	453,351	918,988
Number of ordinary shares outstanding as of June 30, 2010 (Note 8)*	169,076,975	169,076,975
Earnings per share (AED)	2.68	5.44
Diluted Earnings per share (AED)	2.68	5.44

* The number of ordinary shares outstanding as of June 30, 2009 has been adjusted to reflect the bonus shares issued during 2010 (Note 8).

11. Cash and cash equivalents

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

	<u>June 30,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	<u>AED'000</u>	<u>AED'000</u>
	<u>(un-audited)</u>	<u>(audited)</u>
Cash and balances with central banks		
Cash in hand	529,307	514,758
Balances with central banks:		
Current accounts and other balances	3,680,264	2,325,386
Certificate of deposit	9,582,000	14,650,000
Deposits and balances due from banks maturing within 3 months	7,431,391	6,001,931
	21,222,962	23,492,075

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

12. Contra accounts and commitments

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
(a) Contra accounts (memoranda)		
Guarantees	40,263,802	41,226,839
Letters of credit	4,175,284	4,058,517
	<u>44,439,086</u>	<u>45,285,356</u>
(b) Derivative financial instruments (Note 13)	82,573,323	91,228,468
	<u>127,012,409</u>	<u>136,513,824</u>

13. Derivatives

<u>Derivative financial instruments</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
	AED'000	AED'000	AED'000
Forward foreign exchange contracts	449,406	425,496	40,412,631
Foreign exchange options (bought)	-	160,975	9,631,013
Foreign exchange options (sold)	160,975	-	8,264,146
Interest rate swaps	800,855	806,992	23,556,319
Credit default swaps	215	861	50,592
Equity derivatives	11,374	19,251	302,973
Futures contracts purchased (customers)	-	6,028	87,053
Futures contracts sold (customers)	2,030	-	90,771
Futures contracts sold (bank)	6,028	-	87,053
Futures contracts purchased (bank)	-	2,030	90,772
	<u>1,430,883</u>	<u>1,421,633</u>	<u>82,573,323</u>
At June 30, 2010 – un-audited	<u>1,430,883</u>	<u>1,421,633</u>	<u>82,573,323</u>
At December 31, 2009 – audited	<u>1,269,198</u>	<u>1,270,436</u>	<u>91,228,468</u>

14. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the six-month periods ended June 30, 2010 and 2009.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

15. Related party transactions

- a) Certain “related parties” (such as, directors 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 unrelated parties. Such related party transactions are disclosed below.
- b) The Group is controlled by Al Ghurair Family members who own 82.27% of the share capital. The remaining shares are widely held.

- c) Related party balances as of June 30, 2010 are as follows:

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	AED'000	AED'000
	(un-audited)	(audited)
Loans and advances measured at amortized cost	2,352,319	1,903,602
Customers' deposits	1,566,442	1,497,794
Letters of credit and guarantees	2,031,082	1,952,917
Other financial assets measured at FVTOCI	119,590	118,430
Investments revaluation reserve	(21,810)	(22,970)

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

	<u>6 months ended June 30,</u> <u>2010</u>	<u>2009</u>
	AED '000	AED '000
	(un-audited)	(un-audited)
Interest income	76,389	60,493
Interest expense	16,702	38,458
Other income	57,519	41,759

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

16. 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 as follows:

1. The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the U.A.E. Trade finance, contracting finance, project finance, investment banking, corporate advisory, cash management, wealth management, SME and private banking are the major products and / or business lines making up this segment.
2. The **Domestic Retail** segment includes products and services offered to individuals or small businesses within U.A.E. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking and wealth management services.
3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for foreign exchange, derivatives, futures, hedging, investment products, domestic equities and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

16. Segmental information (continued)

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, Wadiya, Mudarah 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.

Revenue reported below represents revenue generated from external customers. All inter-segment income in the period was eliminated.

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 central administration costs, allowances for impairment and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

16. Segmental information (continued)

	January 1, 2010 to June 30, 2010 (un-audited)						
	Domestic Retail AED'000	Domestic Corporate AED'000	International Banking AED'000	Treasury & Capital Markets AED'000	Islamic Banking AED'000	Insurance AED'000	Head Office AED'000
Net interest income and earnings from Islamic products	536,907	335,903	93,053	39,839	68,342	10,915	86,398
Commission and other income	285,116	184,326	143,178	173,707	31,423	284,398	32,331
Operating income	822,023	520,229	236,231	213,546	99,765	295,313	118,729
General and administrative expenses							
Allowances for impairments							(896,768)
Profit before taxes							(892,029)
Overseas income tax expense							517,039
Profit for the period							(7,951)
Attributed to:							
Shareholders of the parent							509,088
Non controlling interests							453,351
							55,737
							509,088
June 30, 2010 (un-audited)							
Segment Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
	9,828,949	23,016,479	13,139,419	24,696,099	6,471,984	3,778,453	5,423,276
Segment Liabilities	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
	9,470,300	29,370,990	6,948,965	17,857,760	4,385,175	2,191,107	4,147,375
							74,371,672

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

16. Segmental information (continued)

	January 1, 2009 to June 30, 2009 (un-audited)					
	Domestic Retail AED'000	Domestic Corporate AED'000	International Banking AED'000	Treasury & Capital Markets AED'000	Islamic Banking AED'000	Insurance AED'000
Net interest income and earnings from Islamic products	531,775	365,531	115,768	(56,314)	69,065	10,255
Commission and other income	307,410	242,384	128,024	305,398	10,539	292,166
Operating income	839,185	607,915	243,792	249,084	79,604	302,421
General and administrative expenses						
Allowances for impairments						(920,116)
Profit before taxes						(551,354)
Overseas income tax expense						979,734
Profit for the period						(7,495)
Attributed to:						972,239
Shareholders of the parent						
Non controlling interests						918,988
						53,251
						972,239
December 31, 2009 (audited)						
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Segment Assets	10,480,184	24,985,894	13,072,782	29,959,280	6,368,094	3,609,033
Segment Liabilities	10,367,181	36,262,089	6,554,300	20,140,457	2,916,137	2,073,545
						4,460,743
						82,774,452

Notes to the Condensed Consolidated Financial Statements (continued)
For the period from January 1, 2010 to June 30, 2010

16. 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**	
	6 month period ended			
	June 30,		June	December
	2010	2009	30, 2010	31, 2009
	AED'000	AED'000	AED'000	AED'000
	(un-audited)	(un-audited)	(un-audited)	(audited)
U.A.E.	2,017,583	2,237,805	1,346,332	1,123,684
Other Middle East countries	126,542	90,721	308,438	320,928
O.E.C.D.	30,660	45,470	2,881	3,081
Other countries	13,845	13,414	735	1,018
	2,188,630	2,387,410	1,658,386	1,448,711

* 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 (continued)
For the period from January 1, 2010 to June 30, 2010

17. Capital adequacy

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

	June 30, 2010	December 31, 2009
	AED'000	AED'000
	(un-audited)	(audited)
Capital base		
Tier 1	11,793,807	11,567,976
Tier 2	5,128,806	5,115,577
	<u>16,922,613</u>	<u>16,683,553</u>
Deduction from capital	(31,825)	(31,825)
	<u>(a) 16,890,788</u>	<u>16,651,728</u>
Risk-weighted assets:		
Credit Risk	72,721,101	77,086,127
Market Risk	779,387	441,050
Operational Risk	4,980,150	4,980,150
	<u>78,480,638</u>	<u>82,507,327</u>
Total risk-weighted assets	(b) 78,480,638	82,507,327
Capital adequacy ratio (%) [(a)/(b) x 100]	21.52 %	20.18%

Tier 2 Capital at June 30, 2010 and December 31, 2009 includes qualifying subordinated medium-term loans (Note 7).

18. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 25 were approved by the Board of Directors on July 29, 2010.