

MASHREQBANK PSC GROUP

**Review report and interim
financial information for the period
from 1 January 2012 to 30 June 2012**

MASHREQBANK PSC GROUP

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

We have reviewed the accompanying condensed consolidated statement of financial position of **Mashreqbank psc and its Subsidiaries** (the "Group") as at 30 June 2012 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management of the Group is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 - '*Interim Financial Reporting*' ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)



Samir Madbak
Partner
Registration No. 386
22 July 2012

**Condensed consolidated statement of financial position
as at 30 June 2012**

	Note	30 June 2012 (un-audited) AED '000	31 December 2011 (audited) AED '000
ASSETS			
Cash and balances with central banks		10,173,338	14,731,800
Deposits and balances due from banks		10,490,184	10,147,675
Other financial assets measured at fair value	3	3,068,227	2,552,788
Loans and advances measured at amortised cost	4	35,046,293	32,665,962
Islamic financing and investment products measured at amortised cost	5	4,564,781	5,028,547
Other financial assets measured at amortised cost	3	6,200,848	7,181,593
Interest receivable and other assets		5,454,360	5,417,102
Investment properties		288,028	318,028
Property and equipment	6	1,153,030	1,197,827
Total assets		76,439,089	79,241,322
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks		7,166,868	7,223,370
Repurchase agreements with banks		727,563	2,505,165
Customers' deposits		39,255,327	40,177,020
Islamic customers' deposits		4,421,350	5,239,863
Insurance and life assurance funds		1,132,985	972,867
Interest payable and other liabilities		5,729,890	5,676,168
Medium-term loans	7	4,980,376	4,634,012
Long-term loans		213	9,007
Total liabilities		63,414,572	66,437,472
Equity			
Issued and paid up capital	8	1,690,770	1,690,770
Statutory and legal reserves		846,745	846,745
General reserve		312,000	312,000
Cumulative translation adjustment		(37,765)	(33,022)
Investments revaluation reserve		(325,362)	(346,145)
Retained earnings		9,996,048	9,792,462
Equity attributable to shareholders of the Parent		12,482,436	12,262,810
Non-controlling interests		542,081	541,040
Total equity		13,024,517	12,803,850
Total liabilities and equity		76,439,089	79,241,322

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


Abdul Aziz Abdulla Al Ghurair
Chairman


Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Condensed consolidated income statement (un-audited)
for the period from 1 January 2012 to 30 June 2012

	Note	3 months ended 30 June		6 months ended 30 June	
		2012 (un-audited) AED '000	2011 (un-audited) AED '000	2012 (un-audited) AED '000	2011 (un-audited) AED '000
Interest income		718,054	791,481	1,434,061	1,705,536
Income from Islamic financing and investment products		54,493	66,435	108,641	132,065
Total interest income and income from Islamic financing and investment products		772,547	857,916	1,542,702	1,837,601
Interest expense		(277,887)	(350,795)	(570,153)	(737,317)
Distribution to depositors – Islamic products		(26,610)	(29,666)	(64,683)	(64,768)
Net interest income and income from Islamic products net of distribution to depositors		468,050	477,455	907,866	1,035,516
Fee and commission income		608,978	536,595	1,237,966	1,012,597
Fee and commission expense		(320,966)	(240,134)	(667,328)	(456,005)
Net fee and commission income		288,012	296,461	570,638	556,592
Net investment income		48,228	69,194	108,556	112,019
Other income, net		153,309	225,661	307,948	457,904
Operating income		957,599	1,068,771	1,895,008	2,162,031
General and administrative expenses	9	(449,570)	(458,252)	(905,977)	(914,165)
Allowances for impairment		(176,741)	(312,043)	(352,380)	(637,409)
Profit before taxes		331,288	298,476	636,651	610,457
Overseas income tax expense		(6,482)	(3,965)	(11,939)	(11,222)
Profit for the period		324,806	294,511	624,712	599,235
Attributed to:					
Shareholders of the parent		320,348	286,272	591,170	551,576
Non-controlling interests		4,458	8,239	33,542	47,659
		324,806	294,511	624,712	599,235
Earnings per share (AED)	10	1.89	1.69	3.50	3.26

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 2012 to 30 June 2012

	3 months ended 30 June		6 months ended 30 June	
	2012	2011	2012	2011
	(un-audited)	(un-audited)	(un-audited)	(un-audited)
	AED '000	AED '000	AED '000	AED '000
Profit for the period	324,806	294,511	624,712	599,235
Other comprehensive income				
Changes in fair value of financial assets measured at FVTOCI, net	(62,122)	20,132	(61,148)	(29,256)
Cumulative translation adjustment	(9,463)	1,225	(4,743)	5,262
Total other comprehensive income/(loss) for the period	(71,585)	21,357	(65,891)	(23,994)
Total comprehensive income for the period	253,221	315,868	558,821	575,241
Attributed to:				
Shareholders of the parent	270,944	303,841	557,780	542,071
Non-controlling interests	(17,723)	12,027	1,041	33,170
	253,221	315,868	558,821	575,241

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

**Condensed consolidated statement of changes in equity (un-audited)
for the period from 1 January 2012 to 30 June 2012**

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Equity attributable to shareholders of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2010 (audited)	1,690,770	845,385	312,000	(19,483)	(284,120)	9,300,191	11,844,743	540,239	12,384,982
Profit for the period	-	-	-	-	-	551,576	551,576	47,659	599,235
Other comprehensive income/(loss)	-	-	-	5,262	(14,767)	-	(9,505)	(14,489)	(23,994)
Total comprehensive income/(loss) for the period	-	-	-	5,262	(14,767)	551,576	542,071	33,170	575,241
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	2,489	(2,489)	-	-	-
Transfer to statutory and legal reserves	-	1,606	-	-	-	(1,606)	-	-	-
Payment of dividends (Note 8)	-	-	-	-	-	(338,154)	(338,154)	-	(338,154)
Balance at 30 June 2011 (un-audited)	1,690,770	846,991	312,000	(14,221)	(296,398)	9,509,518	12,048,660	573,409	12,622,069
Balance at 31 December 2011 (audited)	1,690,770	846,745	312,000	(33,022)	(346,145)	9,792,462	12,262,810	541,040	12,803,850
Profit for the period	-	-	-	-	-	591,170	591,170	33,542	624,712
Other comprehensive income/(loss)	-	-	-	(4,743)	(28,647)	-	(33,390)	(32,501)	(65,891)
Total comprehensive income for the period	-	-	-	(4,743)	(28,647)	591,170	557,780	1,041	558,821
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	49,430	(49,430)	-	-	-
Payment of dividends (Note 8)	-	-	-	-	-	(338,154)	(338,154)	-	(338,154)
Balance at 30 June 2012 (un-audited)	1,690,770	846,745	312,000	(37,765)	(325,362)	9,996,048	12,482,436	542,081	13,024,517

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 2012 to 30 June 2012**

	6 months ended 30 June 2012 (un-audited) AED '000	6 months ended 30 June 2011 (un-audited) AED '000
Cash flows from operating activities		
Profit before taxes	624,712	599,235
Adjustments for:		
Depreciation of property and equipment	79,723	76,485
Impairment charges for the period	352,380	637,409
Loss/(gain) on sale of property and equipment	2,481	(17,304)
Gain from redemption of medium term notes	(3,986)	(29,385)
Fair value adjustment of other financial assets measured at FVTPL	(17,347)	(12,356)
Fair value adjustment of derivatives	(24,088)	(1,216)
Fair value adjustment of investment properties	30,000	-
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with central banks for regulatory purposes n and certificate of deposits with the central banks	7,150,234	(7,325,341)
(Increase)/decrease in deposits and balances due from banks maturing after three months	(34,851)	1,098,383
Increase in other financial assets carried at FVTPL	(693,561)	(156,884)
(Increase)/decrease in loans and advances measured at amortized cost	(2,693,708)	2,356,687
Decrease in Islamic financing and investment products measured at amortized cost	453,408	202,895
Increase in interest receivable and other assets	(13,815)	(409,713)
(Decrease)/increase in deposits and balances due to banks	(56,502)	480,369
(Decrease)/increase in customers' deposits	(921,693)	1,450,123
Decrease in Islamic customers' deposits	(818,513)	(761,457)
Increase in insurance and life assurance funds	160,118	102,773
Increase in interest payable and other liabilities	53,722	555,127
Increase/(decrease) in medium-term loans	350,350	(1,160,667)
Decrease in long-term loans	(8,794)	(125)
Decrease in repurchase agreements with banks	(1,777,602)	(702,319)
Net cash generated from/(used in) operating activities	2,192,668	(3,017,281)
Cash flows from investing activities		
Purchase of property and equipment	(45,301)	(253,193)
Proceeds from sale of property and equipment	7,894	38,877
Net decrease in non-trading investments	1,115,066	1,585,276
Net cash generated from investing activities	1,077,659	1,370,960
Cash flows from financing activities		
Dividend paid	(338,154)	(338,154)
Net cash used in financing activities	(338,154)	(338,154)
Net increase/(decrease) in cash and cash equivalents	2,932,173	(1,984,475)
Net foreign exchange difference	(4,743)	5,262
Cash and cash equivalents at beginning of the period	10,785,658	14,427,686
Cash and cash equivalents at end of the period (Note 11)	13,713,088	12,448,473

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 2012 to 30 June 2012**

1. General information

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

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

At 30 June 2012, Mashreqbank psc Group (the “Group”) comprises of the Bank and the following 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)	United Arab Emirates	63.65	63.65	Insurance
Mindscape Information Technology L.L.C.	United Arab Emirates	99.00	99.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Bracebridge Limited	British Virgin Islands	*	100.00	Special purpose vehicle
Orriston Limited	British Virgin Islands	*	100.00	Special purpose vehicle

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

For the purpose of 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
for the period from 1 January 2012 to 30 June 2012 (continued)**

1. General information (continued)

New and revised IFRSs in issue but are not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Amendments to IAS 1 Presentation of Financial Statements	1 July 2012
Amendments to IAS 19 Employee Benefits	1 January 2013
IAS 27 Consolidated and Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates	1 January 2013
IAS 32 Financial instruments: Presentation	1 January 2014
IFRIC 20 Stripping costs in the production phase of a surface mine	1 January 2013

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

2. Summary of significant accounting policies

2.1 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 2011.

All significant inter-group 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.

These 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 31 December 2011. In addition, results for the period from 1 January 2012 to 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

2.2 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 these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2011.

2.3 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2011.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

3. Other financial assets

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Other financial assets measured at fair value		
(i) Investments measured at fair value through profit and loss (FVTPL)		
Debt securities	1,034,227	540,009
Equities	37,135	40,351
Mutual and other funds	653,570	433,664
	<u>1,724,932</u>	<u>1,014,024</u>
(ii) Investments measured at fair value through other comprehensive income (FVTOCI)		
Equities	1,048,310	1,262,566
Mutual and other funds	294,985	276,198
	<u>1,343,295</u>	<u>1,538,764</u>
Total other financial assets measured at fair value	<u>3,068,227</u>	<u>2,552,788</u>
(iii) Other financial assets measured at amortised cost		
Debt securities	6,200,848	7,181,593
Total other financial assets	<u>9,269,075</u>	<u>9,734,381</u>

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Balances within the U.A.E.	5,153,157	6,051,962
Balances outside the U.A.E.	4,115,918	3,682,419
	<u>9,269,075</u>	<u>9,734,381</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

3. Other financial assets (continued)

- (c) During the period from 1 January 2012 to 30 June 2012, dividends received from financial assets measured at FVTOCI amounting to AED 44 million (period ended 30 June 2011: AED 41 million) were recognized as investment income in the condensed consolidated income statement.
- (d) Other financial assets measured at FVTOCI includes AED 233 million (31 December 2011: AED 218 million) which represents investments in Emerging Markets Credit Opportunities Fund, Makaseb Income Fund, Mashreq Al Islami Income Fund, MCF Series and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity or coupon rate. The fair value of these investments is based on quoted market prices.

4. Loans and advances measured at amortised cost

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Loans	31,911,570	29,577,932
Overdrafts	4,337,624	4,037,985
Credit cards	1,547,758	1,482,708
Other	115,832	161,743
	37,912,784	35,260,368
Less: Allowance for impairment	(2,866,491)	(2,594,406)
	35,046,293	32,665,962

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

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

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Manufacturing	3,323,486	2,805,029
Construction	2,956,576	2,566,833
Trade	7,663,277	6,479,620
Transport and communication	1,041,703	1,092,463
Services	4,858,671	4,624,304
Financial institutions	2,902,938	2,823,938
Personal	9,775,617	9,442,197
Government and public sector	5,372,076	5,383,134
Other	18,440	42,850
	37,912,784	35,260,368
Less: Allowance for impairment	(2,866,491)	(2,594,406)
	35,046,293	32,665,962

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

	6 months ended 30 June 2012 (un-audited) AED '000	Year ended 31 December 2011 (audited) AED '000
Balance at the beginning of the period/year	2,594,406	3,099,714
Impairment allowance for the period/year	213,726	640,286
Interest in suspense	75,905	220,476
Recoveries during the period/year	(17,546)	(50,715)
Written off during the period/year	-	(1,315,355)
	2,866,491	2,594,406
Balance at the end of the period/year	2,866,491	2,594,406

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

5. Islamic financing and investment products measured at amortised cost

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
<u>Financing</u>		
Murabaha	2,404,691	2,614,266
Ijara	1,026,000	1,417,406
	3,430,691	4,031,672
<u>Investment</u>		
Musharakah	496,984	807,876
Mudaraba	378,263	363,230
Wakala	450,866	-
	1,326,113	1,171,106
Total	4,756,804	5,202,778
Less: Unearned income	(114,339)	(108,940)
Allowance for impairment	(77,684)	(65,291)
	4,564,781	5,028,547

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

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

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Government and public sector	1,639,935	1,211,744
Construction	309,258	1,228,353
Services	1,355,752	1,374,607
Financial institutions	176,055	257,361
Personal	944,261	923,281
Transport and communication	7,946	9,016
Trade	210,078	172,738
Manufacturing	111,932	25,254
Other	1,587	424
Total	4,756,804	5,202,778
Less: Unearned income	(114,339)	(108,940)
Allowance for impairment	(77,684)	(65,291)
	4,564,781	5,028,547

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

	6 months ended 30 June 2012 (un-audited) AED '000	Year ended 31 December 2011 (audited) AED '000
Balance at the beginning of the period/year	65,291	136,093
Impairment allowance for the period/year	10,358	30,980
Profit in suspense	2,035	1,916
Written off during the period/year	-	(103,698)
Balance at the end of the period/year	77,684	65,291

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

6. Property and equipment

During the period from 1 January 2012 to 30 June 2012, the Group purchased approximately AED 45 million (period ended 30 June 2011: AED 253 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 11 million (period ended 30 June 2011: AED 22 million) for proceeds of AED 8 million (period ended 30 June 2011: AED 39 million).

7. Medium-term loans

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
Tier 2 loan from the Ministry of Finance of the U.A.E. (a)	3,443,593	3,443,593
Medium term floating rate notes (b)	1,536,783	1,190,419
	4,980,376	4,634,012

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

The Tier 2 loan from the Ministry of Finance of the U.A.E. will mature on 31 December 2016 and qualifies for Tier 2 subordinated loan capital for the first 2 years and thereafter it is amortised at the rate of 20% per annum for the last five years until its maturity on 31 December 2016 for capital adequacy calculation purposes.

Interest is paid every three months and calculated at a rate of 4.50% for the year ending 31 December 2012, 5.00% for the year ending 31 December 2013 and 5.25% up to maturity.

(b) *Medium term floating rate notes*

The maturities of the floating rate notes (FRNs) issued under the programme are as follows:

Due date	Interest rate	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
24 January 2017	3 months Libor + 1.13%	1,169,483	1,190,419
12 March 2014	3 months Libor + 1.80%	183,650	-
2 May 2014	3 months Libor + 1.70%	183,650	-
		1,536,783	1,190,419

During the year ended 31 December 2004, the Bank established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2,754 million) under an agreement dated 4 February 2004. The EMTN programme was increased to USD 2,000 million (AED 7,346 million) under agreement dated 21 March 2006. On 15 March 2010, the EMTN programme limit was further increased to USD 5,000 million (AED 18,365 million).

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

7. Medium-term loans (continued)

(b) Medium term floating rate notes (continued)

Medium term floating rate notes includes AED 1.17 billion (31 December 2011: AED 1.19 billion) of subordinated floating rate note ("FRN") which qualifies for Tier 2 subordinated loan capital for first 5 years till 2012 and thereafter it will be amortised at the rate of 20% per annum for next five years until 2017 for capital adequacy calculation purposes. This subordinated FRN has been approved by U.A.E. Central Bank as a Tier 2 capital.

8. Issued and paid up capital

As at 30 June 2012, 169,076,975 ordinary shares of AED 10 each (31 December 2011: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

During the six months ended 30 June 2012, a 20% cash dividend amounting to AED 338 million was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting conducted on 28 February 2012.

9. General and administrative expenses

General and administrative expenses include senior management remuneration of AED 43 million for the period from 1 January 2012 to 30 June 2012 (period ended 30 June 2011: AED 53 million).

10. Earnings per share

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

	6 months ended 30 June 2012 (un-audited)	6 months ended 30 June 2011 (un-audited)
Profit for the period (AED'000) (Attributed to shareholders of the parent)	591,170	551,576
Number of ordinary shares outstanding	169,076,975	169,076,975
Earnings per share (AED)	3.50	3.26
Diluted earnings per share (AED)	3.50	3.26

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

11. Cash and cash equivalents

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

	30 June 2012 (un-audited) AED'000	30 June 2011 (un-audited) AED'000
Cash and balances with central banks maturing within 3 months:		
Cash on hand	500,055	673,077
Balances with central banks:		
Current accounts and other balances with central banks	2,202,102	1,127,658
Certificate of deposits with Central Bank	2,338,000	500,000
Deposits and balances due from banks maturing within 3 months	8,672,931	10,147,738
	13,713,088	12,448,473

12. Contra accounts

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

	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
<i>Contra accounts (memoranda)</i>		
Guarantees	38,810,884	38,335,059
Letters of credit	6,372,046	6,279,121
	45,182,930	44,614,180

13. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the six month periods ended 30 June 2012 and 2011.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

14. 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 external customers and parties. Such related party transactions are disclosed below.
- (b) The Group is controlled by Al Ghurair Family members who own 82.34% of the issued and paid up capital. The remaining shares are widely held by other parties.
- (c) Related party balances included in the condensed consolidated statement of financial position are as follows:

	30 June 2012 (un-audited) AED’000	31 December 2011 (audited) AED’000
Loans and advances measured at amortised cost	2,223,496	2,199,530
Customers’ deposits	953,772	980,263
Letters of credit and guarantees	2,235,488	2,023,979

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

	6 months ended 30 June 2012 (un-audited) AED ’000	6 months ended 30 June 2011 (un-audited) AED ’000
Interest income	40,057	49,984
Interest expense	11,578	8,818
Other income, net	46,111	31,397

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

15. Segmental information

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

Reportable segments

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

15. Segmental information (continued)

Period from 1 January 2012 to 30 June 2012 (un-audited)

	Domestic corporate AED'000	Domestic retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head office AED'000	Total AED'000
Net interest income and earnings from Islamic products	310,099	370,973	(56,724)	133,468	43,959	6,005	100,086	907,866
Other income, net	207,987	149,333	208,693	173,854	27,386	206,030	13,859	987,142
Total operating income	518,086	520,306	151,969	307,322	71,345	212,035	113,945	1,895,008
General and administrative expenses								(905,979)
Allowances for impairment								(352,378)
Profit before taxes								636,651
Overseas income tax expense								(11,939)
Profit for the period								624,712
Attributed to:								
Shareholders of the parent								591,170
Non-controlling interests								33,542
								624,712
Segment Assets	20,592,842	7,833,650	17,046,213	15,223,266	5,300,893	3,211,647	7,230,578	76,439,089
Segment Liabilities	22,216,127	11,189,700	12,375,697	8,545,900	4,475,836	2,116,696	2,494,616	63,414,572

15. Segmental information (continued)

Period from 1 January 2011 to 30 June 2011 (un-audited)

	Domestic corporate AED'000	Domestic Retail AED'000	Treasury & capital markets AED'000	International banking AED'000	Islamic banking AED'000	Insurance AED'000	Head office AED'000	Total AED'000
Net interest income and earnings from								
Islamic products	386,375	457,599	(57,695)	110,103	67,297	12,767	59,070	1,035,516
Other income, net	197,054	196,709	208,588	146,117	38,205	300,179	39,663	1,126,515
Total operating income	583,429	654,308	150,893	256,220	105,502	312,946	98,733	2,162,031
General and administrative expenses								
Allowances for impairment								(914,165) (637,409)
Profit before taxes								610,457 (11,222)
Overseas income tax expense								
Profit for the period								599,235
Attributed to:								
Shareholders of the parent								551,576 47,659
Non-controlling interests								599,235
Segment Assets	18,986,258	7,168,489	22,384,443	14,420,975	5,951,210	3,278,274	7,051,673	79,241,322
Segment Liabilities	23,582,382	8,792,900	11,209,000	11,478,905	5,280,891	1,882,036	4,211,358	66,437,472

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

15. Segmental information (continued)

Geographical information

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

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

	Operating income external customers *		Non-current assets **	
	6 month ended 30 June 2012 (un-audited) AED'000	6 month ended 30 June 2011 (un-audited) AED'000	30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
U.A.E.	1,662,059	1,984,489	1,382,423	1,448,165
Other Middle East countries	162,365	121,055	53,638	62,245
O.E.C.D.	50,666	37,802	3,786	4,367
Other countries	19,918	18,685	1,211	1,078
	1,895,008	2,162,031	1,441,058	1,515,855

* 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 2012 to 30 June 2012 (continued)**

16. Capital adequacy ratio

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

		30 June 2012 (un-audited) AED'000	31 December 2011 (audited) AED'000
<i>Capital base</i>			
Tier 1		12,813,297	12,614,226
Tier 2*		4,681,623	5,055,506
Deduction from capital		(31,825)	(31,825)
Total capital base	(A)	17,463,095	17,637,907
<i>Risk-weighted assets</i>			
Credit risk		70,800,823	71,108,245
Market risk		340,807	309,477
Operational risk		5,902,068	6,472,458
Total risk-weighted assets	(B)	77,043,698	77,890,180
Risk asset ratio (%) [(A)/(B) x 100]		22.67%	22.64%

* Tier 2 capital base as at 30 June 2012 and 31 December 2011 includes qualifying subordinated medium-term loans (Note 7).

17. Approval of condensed consolidated financial statements

The condensed consolidated financial statements on pages 2 to 23 were approved by the Board of Directors on 22 July 2012.