

ANNUAL REPORT 1998

Masraf Bank



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We're determined to be your first choice



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17/11/99

Over thirty years of service
is just a beginning

AT MASHREQBANK, WE BELIEVE
THAT THERE IS ALWAYS ROOM
FOR IMPROVEMENT IN EVERY
ASPECT OF OUR WORK.

**We encourage use of judgement
and decision making with
ownership and accountability.**

**We are committed to achieving
an outstanding quality in all
our activities. Excellence is a**

journey, not a destination.

Quality is a way of life for us.



A N N U A L

R E P O R T

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C O N T E N T S

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Shareholder Information

Shareholder Information

MashreqBank



بنك المشرق

We're determined to be your first choice

MASHREQBANK PSC

Established in 1967

Head Office: P.O. Box 1250, Dubai, United Arab Emirates.

Tel: 229131 (30 lines) Telefax: 226061

Tlx: 45429 MSHQHO EM Cable: MASHREQBANK



BOARD OF DIRECTORS AND MANAGEMENT

CHAIRMAN

Abdulla Ahmed Al Ghurair

DEPUTY CHAIRMAN

Mohammed Ibrahim Obaidullah

DIRECTORS

Abdul Aziz Abdulla Al Ghurair

Ali Bin Khalifa Al Hitmi

Mohammed Ali Al Gaizi

Mohammed Abdullah Al Ghurair

Ali Rashed Ahmed Lootah

CHIEF EXECUTIVE OFFICER

Abdul Aziz Abdulla Al Ghurair

SECRETARY TO THE BOARD

Mohammad Nasr Abdeen



MR. H. H. H. H.
MR. H. H. H. H.
MR. H. H. H. H.
MR. H. H. H. H.
MR. H. H. H. H.

CHAIRMAN'S REPORT



On behalf of the Board of Directors, I am pleased to present MashreqBank Annual Report and Accounts for 1998.

The year in perspective was marked by economic turmoil in most of the markets we operate in. However, due to cautious approach and foresight of the management, the Bank continued to grow and reached new heights of success. Net interest income of 1998 improved by 4.86% over 1997 to reach AED 646.6 Million. Our strategy to diversify income streams resulted in growth of 29.9% in Non-Interest Income which reached AED 506 Million. Total Income (excluding transfer from Inner Reserve) stood at AED 1,152.7 Million an improvement of 14.5% over 1997. Other Income from operations to Income ratio improved from 39.3% to 43.8%. Beginning this year, the Bank has decided to go on International Accounting Standards for its annual accounts resulting in the transfer of amount of Inner Reserve being transferred to Income. Maintaining our conservative approach, we have decided to increase provision for specific and general provision to AED 53 Million.

Bank's Operating Expenses also grew by AED 53 Million to reach AED 469.4 Million. Profit after Provision and Tax reached an all time high of AED 500.53 Million. Our Total Assets stood at an all time high of AED 18.3 Billion. Customer Deposits improved by 4.3% to reach AED 12,953.6 Million. Liquid Assets to Total Assets ratio remained healthy at 37.1%. Return on Assets and average Equity remained strong at 2.8% and 24.6% respectively.

Based on these exceptional results, your Board is pleased to recommend a cash dividend of 30% and stock dividend of 20%. The dividend payout ratio is healthy at 36%, and shareholders' funds have been bolstered to AED 2,187.9 Million. Capital to Risk Weighted Assets ratio at 14.4% is significantly more than the minimum regulatory requirement.

Your Bank has always been the first to embrace change and lead the way. However, behind the change some things remain constant: our core value system and concern for our stakeholders.

Since its inception in 1967, MashreqBank has always had the interest of its stakeholders at the core of its strategy. Our success is due to their continued support. Our employees, customers, shareholders and community at large have contributed immensely to our success. We reciprocated their support. MashreqBank, being a responsible employer, has invested significantly year after year to provide learning opportunities to its employees, promoted a work environment which is second to none. Customers' needs and expectations have been our primary concern and we have introduced a number of

Due to a cautious approach and foresight, your Bank continues to grow and reach new heights of success.

products and services of superior value for their convenience. We take pride in being customer focussed and being a provider of high quality and reliable service. Our shareholders have also been rewarded appropriately year after year.

We have always endeavored to shoulder the responsibilities of our corporate citizenship, be it contribution to charitable cause, games and sports, environmental issues, education or Emiratisation program. This year, the Bank introduced a unique Mashreq Summer Learning Program aimed at giving UAE national school children an opportunity to gain exposure to the business world. Closely linked to the Emiratisation program is the new Mashreq Scholarship award for Al Ain University and Higher College of Technology students.

UAE ECONOMY

The steep decline in oil prices in 1998 caused concern in most of the oil exporting countries. However, since contribution of the oil sector to the UAE's GDP is relatively low (30% in 1997), the decline in this sector will be made up by the increase in non-oil sector reducing the impact of lower oil prices. The Government continued its policy of promoting non-oil economy by investing in the infrastructure and encouraging private investment. The Government of Abu Dhabi took a significant step towards privatisation and the first power project with participation of US's CMS energy was approved. The formation of Emirates Basic Industries (Sinaat) with a proposed capital of AED 4 Billion paved the way for private participation in the local downstream oil and gas industry. The construction industry, another major contributor to GDP, remained buoyant. The Government of Abu Dhabi spent AED 11 Billion during the year on development projects. In Dubai also major construction projects like Westside Marina and Emirates Hill were announced. Investment to develop tourism and leisure industry continued. Abu Dhabi has launched a \$2.5 Billion program to expand upstream gas handling capacity. 1998 Federal Budget projected a manageable deficit of AED 1.67 Billion. On the whole, UAE economy remained largely unaffected by the impact of oil price decline.

Net Income	1,122	1,000
After Tax Profit	770	720
Dividend		
Per Share	8.75	8.75
Capital Expenditure		
Per Share	12.00	11.00
Return on Assets		
Per Share	2.32	2.11
Return on Equity		
Per Share	2.32	2.11
Return on Capital Employed		
Per Share	2.32	2.11
Return on Investment		
Per Share	2.32	2.11
Return on Assets		
Per Share	2.32	2.11
Return on Equity		
Per Share	2.32	2.11
Return on Capital Employed		
Per Share	2.32	2.11
Return on Investment		
Per Share	2.32	2.11

Erratic movement in the local stock prices further highlighted the need for an official Stock Exchange. The Government of Dubai has announced plans for establishing a stock trading floor in the first half of 1999. UAE Stock Exchange Draft Law has also been approved and is expected to come in force during 1999.

BANKING SCENE

Continued turmoil in the financial sector around the world increased concern about its spillover in the UAE banking sector. The UAE Central Bank proactively enhanced its vigil and tightened its monitoring. It took several steps to weed out unlicensed independent Financial Advisors operating in the country and also indicated tightening of rules for issuance of brokerage license. Central Bank also took the long-awaited step of establishing a database and rating system to assess the risk profile of individual borrowers.

... of the management,

... to grow and reached new heights of success.

CHAIRMAN'S REPORT CONTINUED

During the first 9 months of 1998, Total Assets of the UAE banking sector increased by 3.5% to reach AED 222.5 Billion. Domestic private credit jumped by 11% to reach AED 99.2 Billion and Total Deposits increased by 5.7% to reach AED 104.2 Billion. Money supply during the same period increased by AED 2.7 Billion, i.e. 10.7%, and overall Liquidity grew by AED 5 Billion, i.e. 4.5%.

LOOKING FORWARD

During the last 3 decades, MashreqBank has grown consistently and has become a leading financial institution in the region. However, 30 years is just a beginning. While we look back with satisfaction and pride on our achievements, we look forward with determination and single-minded devotion to build an edifice on this firm foundation. The strategic plan covering the period 1999-2001 has been

prepared, clear goals are established, and operational plans to execute the strategy are in place to ensure sustained growth in years to come.

Before I close, on behalf of the Board, I would like to express our sincere thanks to the UAE Central Bank and the Government for their support. Our gratitude and appreciation to the CEO and the staff for their dedication and hard work without which this journey would not have been possible.

Thank you.

Abdulla Ahmed Al Ghurair
Chairman



THE BOARD OF DIRECTORS
OF MASHREQ BANK
ABDULLAH AHMED AL GHURAIR, Chairman
SAYED M. AL SAHAB, Vice Chairman
SAYED M. AL SAHAB, Vice Chairman
SAYED M. AL SAHAB, Vice Chairman
SAYED M. AL SAHAB, Vice Chairman

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for their
success



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Classification of Liabilities

	1970
Long Term and Other Liabilities	5.4%
Customer Deposits	70.9%
Bank Deposits	11.7%
Shareholders' Funds	12.0%

Long Term and Other Liabilities	5.4%
Bank Deposits	11.7%



that our non financial
success are in alignment
with our financial achievements.

EXECUTIVE OFFICER'S REVIEW

Following its most successful year in 1997, MashreqBank further improved its performance in 1998. Although financial achievements are critical, however, that is not all we aim for. Manifestation of success for us is much more than just the financial results. It is in managing customer expectations; providing reliable and consistently high quality services; creating infrastructure capable of meeting the ever-changing market needs; constantly improving operational efficiency; attracting, retaining and developing high calibre staff; building a team which is capable of meeting challenges of today's turbulent financial world; and discharging our social responsibility as a corporate citizen.



It is a matter of great satisfaction that our corporate scorecard of these non-financial measures including customer service indicators, robustness of our technology resources and delivery channels, process improvement, staff learning effectiveness, community initiatives, etc. are in alignment with our financial achievements. Feedback received from our customers through the most

comprehensive and largest annual survey of its kind in the UAE puts customer satisfaction index at 80% and has been in that range for the last 4 years. Staff satisfaction index has been improving and jumped by 10% point in 1998.

It is this holistic approach, emphasis on institutionalizing Quality and strategic thinking which has earned us many external accolades and acclaims. In 1998 Euromoney Magazine nominated MashreqBank as one of the 6 most robust banks in the developing world described as centres of excellence.

1998 marked completion of our 3-year strategic plan which was focussed on building infrastructure and creating new capabilities. During the year a new 3-year plan was developed which will take us through the new millennium. The focus of this plan is to leverage the infrastructure, improve productivity, enhance risk management capabilities, maximize usage of alternative delivery channels, reduce customer acquisition cost, improve turnaround time for customer services and further diversify revenue streams by introducing innovative customized products.

Composition of Assets



	1998	1997
Other Assets	6.4%	3.2%
Cash and Bank Balances	31.6%	31.6%
Advances	58.8%	58.7%
Investments	4.5%	6.5%

This year the Bank has decided to publish its financial statements in line with International Accounting Standards. This is a significant step as it brings greater transparency in terms of added disclosures.

COMMERCIAL BANKING

The Commercial Banking Group (CBG) has shown consolidated growth and made further inroads within hitherto unserved industry sectors. Such new directions have complemented and served as expansions to our major lines of business, in meeting the needs of our customers, with a continued emphasis on trade, working capital and contracting finance activities. With our growing involvement in corporate syndications and structured finance, 1998 saw the successful closing of a number of deals within and beyond the domestic and regional markets.

With the recent slowdown of certain sectors of the economy, the Group focused on newly developing market opportunities in addition to a stronger emphasis on fee-based services and products.

In terms of the quality of credits, our portfolio remains strong, particularly on account of the continuous review and monitoring of relevant indicators of market composition, both in terms of exploiting evolving opportunities and mitigating risk. An integral part of the success of the Bank continues to be its firm commitment to relationship banking, with all that it connotes in terms of service quality that comes from a deep understanding of the customer and his business needs, as the focal point of our endeavors.

During this year, a new division was established to oversee the process of setting the Group's strategic direction in line with the prevailing business climate and the Bank's goals, in addition to enhancing research capabilities, management of the corporate credit portfolio, new business line development, product management and management information systems.



Internationally, CBG instituted a process of consolidation and repositioning of the Bank's network of branches to actualize long-term growth in the region. Also, important to note is that the economic crisis of the Asian nations had no direct effect either on the wholly owned subsidiary in Hong Kong, Mashreq, or upon our other global and domestic businesses. Our strategy of consolidation and our cautious approach in international markets, with slowdown in their growth, has resulted in further reduction of proportion of assets to total assets.

An integral part of the success of the Bank
continues to be its firm commitment
with all that it connotes

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ent to relationship banking,

es in terms of service quality.

Implementing c service staff



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Refining programs for all customer
help, upgrade our service standards.

RETAIL BANKING



CORRESPONDENT BANKING

last year, our correspondent banking portfolio has grown by 50% in terms of business. We have major correspondent programs active in all five major currencies of major growth businesses. We now recognize banks as customers, have developed credit policy and risk management capabilities to meet their needs. We have entered into alliances with our

correspondents, to work in partnership, become the first choice for small and medium size markets for trade finance payments. This line of business has a significant contribution to the bank's profitability, closely with our corporate trade finance gi-

TREASURY AND INVESTMENT BANKING

Treasury activities continued to show impressive growth in 1998, in terms of volume as well as revenue. This was achieved in an environment of falling oil prices and turbulence in emerging markets, reflecting the resilience of UAE economy and our undivided focus on customer service. Our focus remained on customer-driven corporate business without taking any material positions on Bank's own account.

Capital Market products and services are now beginning to be established in the UAE. In this respect, the passage of a draft law on the establishment of a stock exchange in the UAE is a most timely and welcome development. Anticipating a well-regulated UAE stock market, we are initiating brokerage operations modeled on the best business practices in the industry.

Our goal for 1999 is to invest further in this business and



offer our clients value-added services in the currency and equity capital markets.

We are well prepared to meet the opportunities arising due to the advent of Euro from January

RISK MANAGEMENT

Risk Management continues to remain an area of critical importance, with ever increasing initiatives being planned and undertaken to safeguard the bank's risk assets on a proactive basis. The coming global economic slowdown and the waning of the volatile East region, the disadvantage of falling oil prices, are factors that are taken into account and customer efforts are being made to rise to the challenges of the prevailing operating environment. The Credit Review Department has enhanced the scope of review of the commercial loan portfolio and has increased the frequency and depth of credit examinations, together with strengthening of its credit monitoring capability, while the new business review unit, for providing Early Warning Signals to loan management,

A Consumer Examination Department was also added in the year to better monitor and enhance retail banking portfolio. The Audit Department has been restructured and is also transformed to traditional audit to that of consultancy. Besides, risk focus has also shifted to process oriented from transaction oriented model. This has enabled strengthening and re-designing risk management in all business processes and functions, in line with the best practices in the banking industry. New implementation of procedures with the use of sophisticated tools and methods, such as integrated risk rating system, to enhance risk management process.

OPERATING EFFICIENCY

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FINANCE

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the means

to reach your dreams...

1992 VOLVO 940 GLE

SAFETY. THE WAY TO LIVE.

HUMAN RESOURCES



At Mashreq and customer atmosphere

In 1998, MashreqBank's focus on human resources remained mission priorities included introduction of program for all sales and service centres, gaps were identified and training programs were conducted in Quality concepts, relationship management, and Management was conducted for 1634 participants attended training for 4116 mandays.

Emiratization was another key priority for 1998. Creation of Emiratization Cell gave a boost to our efforts. In the last 2 years, 91 nationals joined the Bank. MashreqEmirati Development Plan was launched to provide each dedicated learning plan which will help their career growth and prepare them for assuming higher responsibilities.

In order to promote its value of open communication and continuous improvement, the Bank launched 360° feedback with select senior and middle management positions. Findings of the feedback were included in individual development plans.

Employee involvement in continuous improvement through Staff Suggestion Scheme yielded results in terms of the number and quality of suggestions. The Bank's entry of 2 suggestions selected by United Kingdom Association of Suggestions Schemes (UKASS) among suggestions out of worldwide entries.

Credit for these outstanding achievements goes to the dedicated efforts of our people who worked as a team to overcome all obstacles and capitalize on opportunities without loss of our goals. It is their unwavering commitment, tireless efforts and adaptability to environment which will ensure MashreqBank's continuing success in 1999 and beyond. Thank you.

Abdul Aziz Abdulla Al Churair
Chief Executive Officer

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plan

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WORLDWIDE



U.A.E. BRANCHES

ABU DHABI

Airport Road
Tel: 335600 Fax: 212822

Al Khalidiya
Tel: 665767 Fax: 673883

Al Salam
Tel: 786500 Fax: 742482

Baniyas
Tel: 5121100 Fax: 5122115

Sh. Khalifa Street
Tel: 273300 Fax: 351501

Muroor
Tel: 481850 Fax: 481821

Al Muroor
Tel: 332424 Fax: 331717

ALAIN
Al Ain (Main)
Tel: 667700 Fax: 645602

Al Jbn Abi Taleb St.
Tel: 669268 Fax: 668896

AJMAN

Tel: 422440 Fax: 426690

DUBAI

Buy Juman
Tel: 527103 Fax: 522035

Hor Al Anz
Tel: 523100 Fax: 662887

Al Jumaira
Tel: 441600 Fax: 442322

Khor Dubai
Tel: 534000 Fax: 531854

Al Khaleel Road
Tel: 21772 Fax: 23736

Road
Tel: 211120 Fax: 233783

Al Diyafa Road
Tel: 31245 Fax: 312719

Sug Al Kabir
Tel: 261176/261178
Fax: 266783

Jabbaiah
Tel: 815355 Fax: 816628

FUJAIRAH

Dibba
Tel: 444230 Fax: 443831

Fujairah
Tel: 222754/221100/222493
Fax: 226860

RAS AL KHAIMAH
Al Nakheel
Tel: 221695/221621/226655
Fax: 221880

Ras Al Khaimah
Tel: 361644 Fax: 363620

SHARJAH
Al Boon Avenue
Tel: 351366/354873
Fax: 372903

King Abdul Aziz Street
Tel: 745137 Fax: 745324

Dhaid
Tel: 822117/822892
Fax: 822416

Kalba
Tel: 777430/778503/779667
Fax: 778950

Khodakkan
Tel: 385225/385259/386805
Fax: 387182

UMM AL QUWAIN

Tel: 666948
Fax: 664948

OVERSEAS BR.

AFRICA

EGYPT

Alexandria
Tel: (203) 4956850
Fax: (203) 491290

MSHQ
Tel: 54634

Kenya

MSHQ
Tel: (202) 5710417
Fax: (202) 571042

Kenya

MSHQ
Tel: 251-413056
Fax: 251-212672

Kenya

MSHQ
Tel: 22593

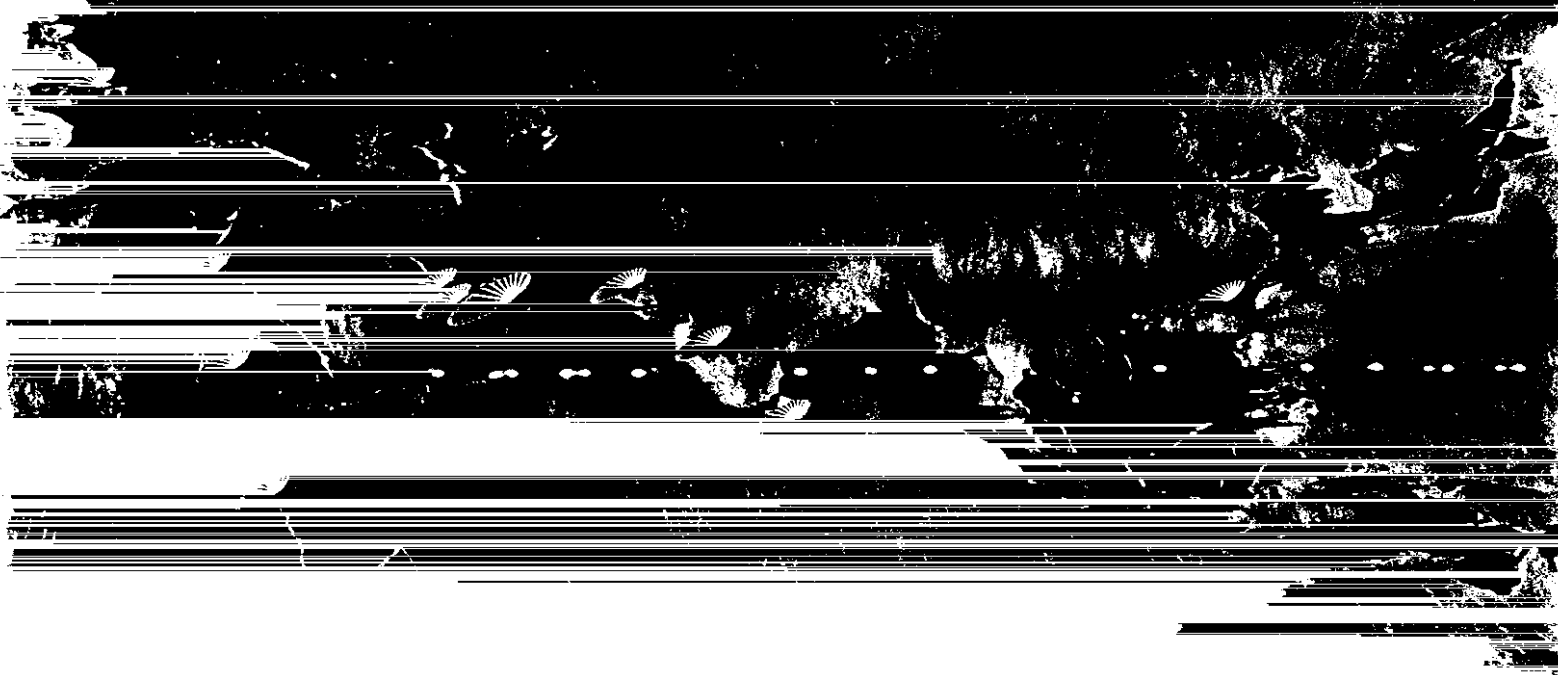
SUDAN

MSHQ
Tel: 212-117228
Fax: 212-117227

SUDAN

MSHQ
Tel: 221211
Fax: 22633

DIRECTORY



CHES

0418

2540

ASIA

INDIA

Mumbai

Tel: (91-22) 2026096/2028747

Fax: (91-22) 2873305

Tlx: 1185936 MSHQ IN

New Delhi

Tel: (91-11) 3350560 (5 lines)

Fax: (91-11) 3357143

Tlx: 031-61965 MSHD IN

PAKISTAN

Karachi

Tel: (92-21) 5610391 (5 lines)

Fax: (92-21) 5610830

Tlx: 20230 MSHQ PK

Peshawar

Tel: (92-91) 272351 (2 lines)

Fax: (92-91) 276320

Tlx: 52325 MSHQ PK

Lahore

Tel: (92-42) 6302063 (5 lines)

Fax: (92-42) 6363062

Tlx: 44712 MSHQ PK

SRI LANKA

Colombo

Tel: (941) 447216 (4 lines)

Fax: (941) 447220

Tlx: 21466 MSHQ CE

MIDDLE EAST

BAHRAIN

Tel: (973) 210171

Fax: (973) 213516

Tlx: 9565 MSHQ IN

9566 MSHQ BN

QATAR

Doha

Tel: (974) 213219 (4 lines)

Fax: (974) 118880

Tlx: 4235 MSHQ BN

EUROPE

UNITED KINGDOM

London

Tel: (44-171) 247-6395 (5 lines)

Fax: (44-171) 410-0832

Tlx: 883429 MSHQ ING

AMERICA

USA

New York

Tel: (1-212) 545-8200

Fax: (1-212) 545-0919

545-1966

Tlx: 239881 MSHQ NY

271943 MSHQ NY

SUBSIDIARIES

U.A.E.

Dubai

Oman Insurance Company, P.S.C.

17 Branches in U.A.E.

H.O. Tel: 390700, Fax: 390110

Tlx: 46030 O.C. EN

Osool - A Finance Co.

(14 Branches in U.A.E.)

H.O. Tel: 737000 (8 lines)

Fax: 7066966

HONG KONG

Mashreq Asia Limited

Tel: (852) 25212938

Fax: (852) 25214289

Tlx: 63581 MSHQ HK

USA

New York

Bank of Oman Overseas

(USA) Inc.

Tel: (1-212) 545-8200

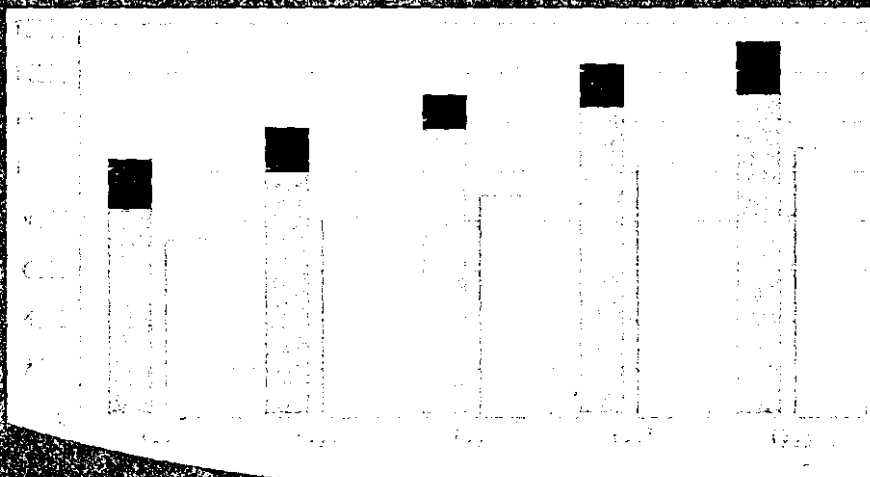
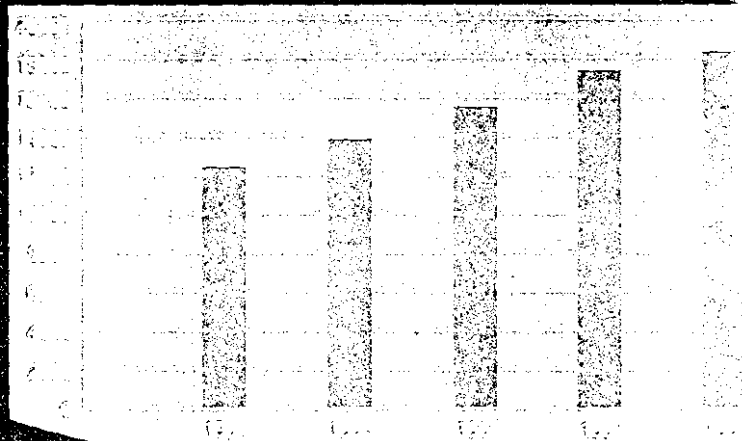
Fax: (1-212) 545-0919

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FINANCIAL HIGHLIGHTS

TOTAL ASSETS
(MILLION DOLLARS)

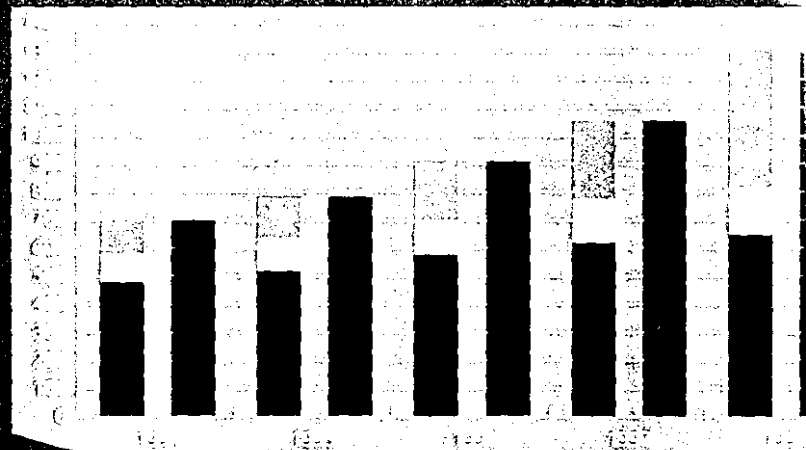


CUSTOMER DEPOSITS/BANK DEPOSITS AND ADVANCES
(MILLION DOLLARS)

- Bank Deposits
- Customer Loans
- Advances

TOTAL INCOME COMPOSITION
(MILLION DOLLARS)

- Interest Income (Net)
- Commission (Net)
- Exchange Profit
- Miscellaneous
- Other Income

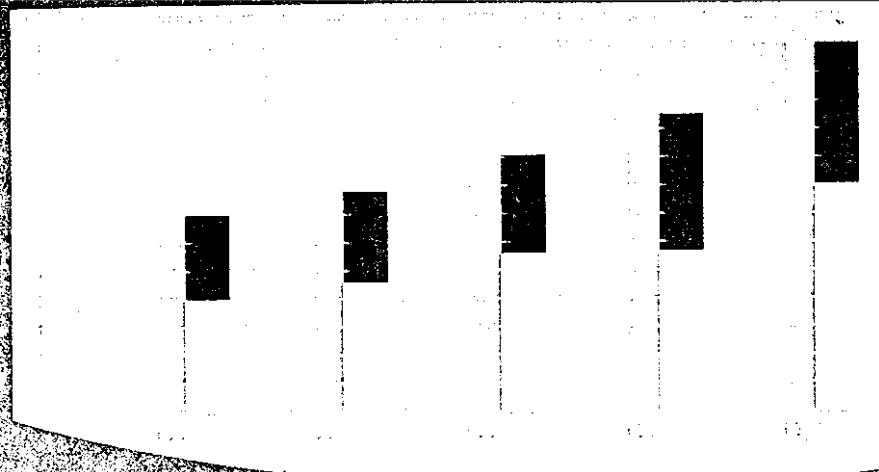


AT HIGHLIGHTS

GROWTH PATTERN OF GROSS INCOME, OPERATING COSTS AND NET PROFITS AFTER TAX

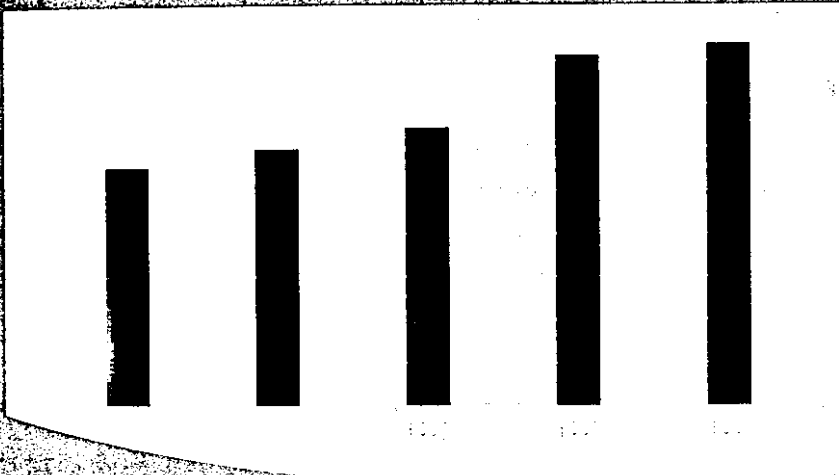
(MILLION DIRHAMS)

- Gross Income
- Operating Costs
- Net Profits after Tax



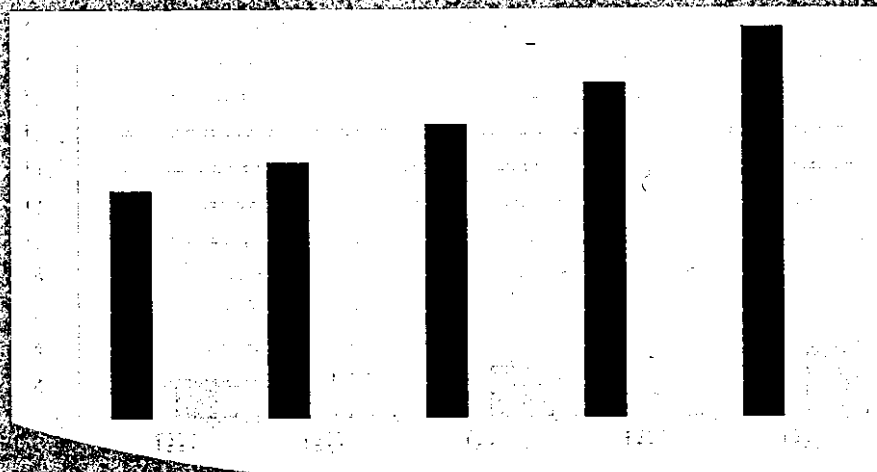
EARNINGS PER SHARE (AFTER TAX)

(DIRHAMS)



SHAREHOLDERS' FUNDS & BREAK-UP VALUE PER SHARE

- Shareholders' Funds (Million Dirhams)
- Break-up Value Per Share (Dirhams)



INDEPENDENT AUDITOR'S REPORT

The Shareholders
MashreqBank psc
Dubai
United Arab Emirates

We have audited the accompanying consolidated balance sheet of MashreqBank psc Group as at 31 December 1998, and the related consolidated statements of income and retained earnings, and cash flows for the year ended 31 December 1998. These consolidated financial statements are the responsibility of the Directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require us to plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 1998 and the consolidated results of its operations and its cash flows for the year then ended in conformity with International Accounting Standards.

Also, in our opinion, proper books of account have been maintained by the Bank and the information disclosed in the Directors' Report is in agreement with the accounting records of the Bank. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, we found no contraventions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984, as amended, or the Bank's Articles of Association which might have materially affected the financial position of the Bank or the consolidated results of its operations for the year.

Dubai
January 6, 1999

Deloitte

GROUP FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31

	Note	1998		1997	
		AED'000	US\$'000	AED'000	US\$'000
Interest income		1,291,439	351,603	1,251,528	340,737
Interest expense		(644,871)	(175,570)	(634,933)	(172,865)
Net interest income		646,568	176,033	616,595	167,872
Net commission income		115,594	31,471	107,653	29,309
Other income, net	15	390,494	106,315	282,051	76,790
Transfer from inner reserve		173,000	47,100	61,000	16,608
		1,325,656	360,919	1,067,299	290,579
General and administrative expenses	16	(469,400)	(127,797)	(416,424)	(113,374)
Provisions for loans & advances, investments and others		(324,349)	(88,307)	(141,897)	(38,632)
Income before taxes and minority interest		531,907	144,815	508,978	138,573
Income taxes - current		(10,039)	(2,733)	(8,788)	(2,393)
Net income before minority interest		521,868	142,082	500,190	136,180
Minority interest		(21,336)	(5,809)	(14,625)	(3,982)
NET INCOME FOR THE YEAR		500,532	136,273	485,565	132,198
RETAINED EARNINGS					
Balance, January 1		771,763	210,118	606,798	165,205
Net income for the year		500,532	136,273	485,565	132,198
		1,272,295	346,391	1,092,363	297,403
Transfers to:	12				
Statutory and legal reserves		(51,035)	(13,895)	(49,440)	(13,460)
Proposed bonus shares		(119,311)	(32,483)	(54,232)	(14,765)
Proposed dividend		(178,966)	(48,725)	(216,928)	(59,060)
Balance, December 31		922,983	251,288	771,763	210,118
Earnings per share	17	AED 83.90	US\$ 22.84	AED 81.40	US\$ 22.16

* See notes to consolidated financial statements

GROUP FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

		1998		
	Note	AED'000	US\$'000	AED'000
ASSETS				
Cash and balances with Central Banks	3	1,177,052	320,461	1,304,621
Deposits and balances due from Banks	4	4,599,027	1,252,117	4,163,292
Advances to customers less provisions	5	10,742,523	2,924,727	10,157,240
Interest receivable and other assets	6	289,187	78,733	249,034
Investments	7	1,158,740	315,475	1,121,477
Fixed assets	8	290,879	79,194	304,388
TOTAL ASSETS		18,257,408	4,970,707	17,300,052
LIABILITIES				
Deposits from customers		12,953,595	3,526,707	12,418,481
Deposits and balances due to Banks	9	2,144,289	583,797	1,761,701
Long-term loans	10	87,108	23,716	94,419
Interest payable and other liabilities		548,625	149,367	808,616
Insurance and life assurance funds	11	79,462	21,634	62,305
Minority interest		77,431	21,081	62,456
Proposed dividend		178,966	48,725	216,928
TOTAL LIABILITIES		16,069,476	4,375,027	15,424,906
SHAREHOLDERS' FUNDS				
	12			
Share capital		596,553	162,416	542,321
Statutory and legal reserves		360,651	98,190	309,616
General reserve		312,000	84,944	312,000
Proposed bonus shares		119,311	32,483	54,232
Retained earnings		922,983	251,288	771,763
Cumulative translation adjustment		(123,566)	(33,641)	(114,786)
TOTAL SHAREHOLDERS' FUNDS		2,187,932	595,680	1,875,146
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		18,257,408	4,970,707	17,300,052
CONTRA ACCOUNTS (MEMORANDA)	14	16,707,704	4,548,789	13,579,345

Abdulla Ahmed Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

* See notes to consolidated financial statements

NT GROUP FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

997	US\$'000	1998		1997	
		AED'000	US\$'000	AED'000	US\$'000
355,19	NET INCOME	500,532	136,273	485,565	132,198
1,133,48	Increase in interest receivable and other assets	(40,153)	(10,932)	(31,759)	(8,647)
2,765,38	(Decrease)/Increase in interest payable and other liabilities	(259,991)	(70,784)	86,767	23,624
67,80	Depreciation	52,149	14,198	42,825	11,659
305,33					
82,87	NET CASH INFLOW FROM TRADING ACTIVITIES	252,537	68,755	583,398	158,834
	Net increase in deposits	535,114	145,688	1,130,797	307,867
4,710,06	Net increase in advances to customers	(585,283)	(159,347)	(1,290,537)	(351,357)
	Decrease in long-term loans	(7,311)	(1,990)	(8,576)	(2,335)
	Increase in deposits and balances due to banks	382,588	104,162	341,221	92,900
3,381,018	Increase in insurance and life assurance funds	17,157	4,671	2,458	669
479,635					
25,706	NET CASH INFLOW FROM OPERATING ACTIVITIES	594,802	161,939	758,761	206,578
220,152					
16,963	FINANCING ACTIVITIES				
17,004	Dividend paid	(216,928)	(59,060)	(162,696)	(44,295)
59,060	Minority interest	14,975	4,077	9,173	2,497
4,199,538	NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(201,953)	(54,983)	(153,523)	(41,798)
	INVESTING ACTIVITIES				
147,651	Purchase of investments (net of disposals)	(37,263)	(10,145)	(375,350)	(102,192)
84,295	Purchase of fixed assets (net of disposals)	(38,640)	(10,520)	(59,685)	(16,249)
84,944	Cumulative translation adjustment, net	(8,780)	(2,391)	(9,040)	(2,461)
14,765					
210,118	NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(84,683)	(23,056)	(444,075)	(120,902)
(31,251)					
510,522	INCREASE IN CASH AND CASH EQUIVALENTS (NOTE 18)	308,166	83,900	161,163	43,878

* See notes to consolidated financial statements

GROUP FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

1 GENERAL

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 subsidiaries in the United Arab Emirates, Bahrain, Egypt, Hong Kong, India, Kenya, Pakistan, Qatar, Sri Lanka, Sudan, the United Kingdom and the United States.

The group, as at December 31, 1998, includes the following subsidiaries:

	Country of incorporation	Ownership interest
Bank of Oman Overseas (USA) Inc.	USA	100
Mashreq Asia Limited	Hongkong	100
Osool - a Finance Company (Formerly known as Oman Finance Company Limited)	United Arab Emirates	98
Oman Insurance Company Limited	United Arab Emirates	63.65

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The consolidated financial statements are prepared under the historical cost convention.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of MashreqBank psc and its subsidiaries. All significant inter company transactions and balances have been eliminated. Subsidiary companies are those companies in which the Bank owns, directly or indirectly, more than 50% of the voting and/or exercises significant management control.

(c) Revenue Recognition

Interest income and expense are recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. The recognition ceases when the recovery of interest or principal is in doubt. Interest accruing on such advances is suspended. Commission and fee income are accounted on the date the transaction arises. Recoveries in respect of loans fully provided are accounted for on a cash receipts basis.

Insurance premiums from general insurance activities are recognised in the accounting period in which they incept except for premium income from life assurance which is accounted for on a cash basis. Insurance policy acquisition and maintenance costs are charged to expense as incurred.

(d) Foreign Currencies

Transactions denominated in foreign currencies are recorded in their respective local currencies at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses are reflected in net income.

Assets and liabilities of foreign branches and subsidiaries are translated into U.A.E. Dirhams at the rates of exchange ruling at the year end. Income and expenses are translated at average rates of exchange during the year. The Bank's investments in foreign branches and subsidiaries are translated at historical rates of exchange. Resulting differences are included under shareholders' equity as cumulative translation adjustment.

Forward foreign exchange contracts outstanding at the year end are translated at the current prevailing exchange rate at the balance sheet date with any resulting gains or losses being taken to the statement of net income.

(e) Provision for Doubtful Advances

Specific provisions are made against advances when their recovery is in doubt. In addition, a general provision is maintained to cover losses which, although not specifically identified, are likely to be present in any bank's portfolio of advances.

(f) Investments

Trading securities are stated at market value. Gains or losses on sales of trading securities, adjustments to market values and dividends due are included in the statement of net income.

Quoted and unquoted investment securities are stated at cost less diminution for permanent decline in value which is determined on a portfolio basis. Where there is an intention to hold such investments to maturity and they are of a fixed income nature, valuation is at cost, adjusted over the security life for any amortization of premium and accretion of discounts using the interest method.

Investments in discretionary managed funds are stated at the lower of cost or market value determined on a portfolio basis.

Investments in properties are carried at cost less provision for diminution for permanent decline in value.

(g) Fixed Assets and Depreciation

Land, buildings, equipment, office furniture and vehicles are stated at cost. Depreciation is determined using the straight-line method over the estimated useful life of the respective assets as follows:-

Bank buildings	20-25 years
Office equipment and vehicles	4 - 5 years
Furniture, fixtures and computer mainframe hardware	7 years
Improvements to freehold properties and others	5 - 10 years

One year after fixed assets become fully depreciated, they are maintained at a net book value of one Dirham by setting off accumulated depreciation against cost.

(h) Staff Terminal Benefits

Provision is made for estimated amounts required to cover end of service indemnity at the balance sheet date as per U.A.E. Labour Law.

(i) Taxes on income

Provision is made for current and deferred taxes where applicable arising from the operating results of overseas subsidiaries and branches that are incorporated in taxable jurisdictions.

(j) Off balance sheet financial instruments

The Bank utilises forward foreign exchange contracts in the management of its foreign currency positions. Proprietary foreign exchange trading positions are marked to market and the resultant gains and net losses are recognised in the statement of net income.

(k) Comparative financial information

Certain amounts related to 1997 have been reclassified in order to make them comparable with the 1998 presentation. Equivalent United States Dollars have been included in 1998 and 1997 for presentation purposes only at the translation rate of Dirhams 3.673 for each U.S. Dollar.

GROUP FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

3 CASH AND BALANCES WITH CENTRAL BANKS

	1998	1997
	AED'000	AED'000
Cash	181,203	152,470
Balances with Central Bank	995,849	1,152,151
	<u>1,177,052</u>	<u>1,304,621</u>

At December 31, 1998 the amount of AED 457.3 million (1997 - AED 476.2 million) was placed on deposit with the U.A.E. Central Bank as required by local regulations. This deposit is interest-free.

4 DEPOSITS AND BALANCES DUE FROM BANKS

	1998	1997
	AED'000	AED'000
Banks abroad	4,166,974	3,799,839
Banks in the U.A.E.	432,053	363,453
	<u>4,599,027</u>	<u>4,163,292</u>

5 ADVANCES TO CUSTOMERS LESS PROVISIONS

a) Balances as of December 31,

	1998	1997
	AED'000	AED'000
Loans and advances	11,988,223	11,137,047
Bills discounted	416,707	328,580
	<u>12,404,930</u>	<u>11,465,627</u>
Less: Provision for loans and advances		
Specific provision	(987,434)	(816,500)
General provision	(201,469)	(96,637)
Interest in suspense	(473,504)	(395,250)
	<u>10,742,523</u>	<u>10,157,240</u>

The Bank continues to carry classified and delinquent accounts on its books after making 100% provision. Interest is accrued on most of those accounts for litigation purposes but is not taken to income. Such accrual has increased gross loans and advances receivable. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted. Total loans and advances, including fully provided accounts on which interest is not taken to income amounted to AED 1,888,212 K at December 31, 1998 (1997 - AED 1,528,263 K).

b) Movement for the year in provisions against loans and advances to customers

	1998	1997
	AED'000	AED'000
Specific and general provision		
Balance at the beginning of the year	913,137	854,828
Amounts written off during the year	(31,282)	(72,841)
Provisions charged to the income statement	315,553	139,252
Write back of provision for doubtful advances	(8,505)	(8,102)
Balance at end of year	<u>1,188,903</u>	<u>913,137</u>
Interest in suspense		
Balance at the beginning of the year	395,250	295,084
Interest suspended during the year	128,330	111,522
Amounts written off during the year	(33,604)	(4,806)
Write back of suspended interest	(16,472)	(6,550)
Balance at end of year	<u>473,504</u>	<u>395,250</u>

6 INTEREST RECEIVABLE AND OTHER ASSETS

	1998	1997
	AED'000	AED'000
Interest receivable	39,643	32,102
Prepaid interest and expenses	14,853	20,192
Inward orders for payment pending	1,837	7,873
Income Taxes paid in advance	52,757	42,110
Clearing suspense	25,821	2,007
Others	154,276	144,750
	<u>289,187</u>	<u>249,034</u>

GROUP FINANCIAL STATEMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

7 INVESTMENTS

	1998 AED'000
a) In securities	
Trading securities	233,458
Quoted investment	514,346
Unquoted investment	90,373
	604,719
Less: Provision for diminution in value	(33,902)
	570,817
Discretionary managed funds	257,110
	827,927
Total (a)	1,061,385
b) In properties	
Interests in buildings and freehold land	110,116
Less: Provision for diminution in value	(12,761)
	97,355
Total (a) + (b)	1,158,740

The market value of long-term quoted investments and discretionary managed funds held at December 31, 1998 was AED 741 million and respectively, (1997 - AED 795 million and AED 227 million).

8 FIXED ASSETS

	Total	Properties for own use	Properties acquired in settlement of debts	Improvements to freehold properties and others
	AED'000	AED'000	AED'000	AED'000
Cost:				
January 1, 1998	483,856	153,564	51,199	122,035
Additions	53,746	515	-	34,865
Disposals/write-offs	(61,857)	(7,326)	(9,144)	(13,846)
December 31, 1998	475,745	146,753	42,055	143,054
Accumulated Depreciation:				
January 1, 1998	179,468	45,614	1,971	43,159
Charge for the year	52,149	5,190	140	25,495
Disposals/write-offs	(46,751)	(6,727)	(131)	(11,106)
December 31, 1998	184,866	44,077	1,980	57,548
Net Book Value:				
December 31, 1998	290,879	102,676	40,075	85,506
December 31, 1997	304,388	107,950	49,228	78,876

9 DEPOSITS AND BALANCES DUE TO BANKS

	1998 AED'000
Due to overseas central banks	33,016
Banks abroad	1,178,295
Banks in the U.A.E.	932,978
	2,144,289

FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

10 LONG-TERM LOANS

The Real Estate Committee of the U.A.E. has refinanced real estate loans made by the Bank to various U.A.E. citizens which are included in advances. Such refinancing is repayable within 15 years from the date of refinancing.

11 INSURANCE AND LIFE ASSURANCE FUNDS OF OMAN INSURANCE COMPANY LIMITED

	Outstanding Claims	Unearned premium reserve	Additional reserve	Life assurance fund	Total 1998	Total 1997
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
January 1	17,527	18,033	13,520	13,225	62,305	59,847
Increase	3,353	3,645	2,573	7,586	17,157	2,458
December 31	20,880	21,678	16,093	20,811	79,462	62,305

Reserve funds are calculated as a percentage of annual premiums earned, net of reinsurance. Additional reserves are also made for the estimated excess of potential claims and claims incurred but not reported at the balance sheet date.

12 SHAREHOLDERS' FUNDS

	Share Capital	Statutory and legal reserve	General reserve	Proposed bonus share issue	Retained earnings	Cumulative translation adjustment	Total 1998	Total 1997
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At January 1	542,321	309,616	312,000	54,232	771,763	(114,786)	1,875,146	1,615,549
Profit for the year	-	-	-	-	500,532	-	500,532	485,565
Bonus shares issued	54,232	-	-	(54,232)	-	-	-	-
Proposed bonus share issue	-	-	-	119,311*	(119,311)	-	-	-
Transfer to statutory and legal reserves	-	51,035	-	-	(51,035)	-	-	-
Dividend	-	-	-	-	(178,966)	-	(178,966)	(216,928)
Overseas entities, translation adjustment	-	-	-	-	-	(8,780)	(8,780)	(9,040)
At December 31	596,553	360,651	312,000	119,311	922,983	(123,566)	2,187,932	1,875,146

The authorised share capital of the bank is AED 600 million divided into 6,000,000 ordinary shares of AED 100 each. As of December 31, 1998, 5,965,530 ordinary shares of AED 100 each (1997 - 5,423,210 ordinary shares of AED 100 each) were issued and fully paid.

* subject to the approval of the shareholders extra ordinary general meeting and the competent authorities for the increase of authorised capital.

In accordance with Union Law 10/80 of U.A.E., 10% of the net profit for the year has been transferred to statutory reserve. The legal reserve relates to the Bank's foreign operations. Neither the statutory nor the legal reserves are available for distribution. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities. In the United Arab Emirates, this level is 50% of the issued share capital.

13 FOREIGN RESTRICTED ASSETS

Net assets equivalent to AED 175.4 million as of December 31, 1998 (1997 - AED 166.3 million) maintained by certain overseas branches of the Bank operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

14 CONTRA ACCOUNTS AND COMMITMENTS

	1998 AED'000	1997 AED'000
a) Contra accounts		
Letters of credit	1,689,017	1,491,199
Letters of guarantee and acceptances	5,506,245	4,547,091
Foreign exchange contracts Spot and forward	9,512,442	7,531,859
Interest rate contracts Forward rate agreements		9,196
	16,707,704	13,579,345
b) Commitments		
Uncalled capital on investments held.	750	17,500

GROUP FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

15 OTHER INCOME, NET

	1998
	AED'000
Fees, bank charges and other	183,015
Foreign exchange gains	52,147
Insurance underwriting profit	16,052
Investment securities	109,790
Recovery of bad debts	16,639
Net rental income	12,851
	<u>390,494</u>

16 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include AED 43.9 million (1997 AED 48.09 million) incentive bonus to employees and executive officers of the group.

17 EARNINGS PER SHARE

Earnings per share calculations for 1998 and 1997 are based on ordinary shares outstanding as of December 31, after taking into consideration the bonus issued during the year.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks, money market placements and deposits maturing within three months as follows:

	1998	1997	Change
	AED'000	AED'000	th AE
Cash on hand, current accounts and deposits with central bank	1,177,052	1,304,621	(127,569)
Banks in the U.A.E.	432,053	363,453	68,600
Banks abroad	4,166,974	3,799,839	367,135
	<u>5,776,079</u>	<u>5,467,913</u>	<u>308,166</u>

	1997	1996	Change
	AED'000	AED'000	the AED
Cash on hand, current accounts and deposits with central bank	1,304,621	1,925,372	(620,751)
Banks in the U.A.E.	363,453	342,939	20,514
Banks abroad	3,799,839	3,038,439	761,400
	<u>5,467,913</u>	<u>5,306,750</u>	<u>161,163</u>

19 RELATED PARTY TRANSACTIONS

Certain related parties (directors and major shareholders of the Bank and companies of which they are principal owners) were customers of the Bank and its subsidiaries in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Year end related party balances included in the balance sheet are as follows:

	1998	1997
	AED'000	AED'000
Advances to customers	291,926	338,000
Deposits from customers	864,387	794,000
Letters of credit, guarantees and acceptances	654,926	342,000
Net income for the year includes related party transaction as follows:		
Interest income	19,803	20,000
Interest expense	35,968	29,000
Other income	11,367	10,000

GROUP FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

20 INTEREST RATE SENSITIVITY - 1998

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Non interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central bank	392,408	7,481	-	-	777,163	1,177,052
Deposits and balances due from bank	3,661,890	641,546	55,692	54,572	185,327	4,599,027
Advances to customers less provisions	6,143,121	1,386,076	821,636	2,165,886	225,804	10,742,523
Interest receivable and other assets	-	-	-	-	289,187	289,187
Investments	176,380	32,629	128,818	355,560	465,353	1,158,740
Fixed assets	-	-	-	-	290,879	290,879
Total assets	10,373,799	2,067,732	1,006,146	2,576,018	2,233,713	18,257,408
Liabilities and shareholders' funds						
Deposits from customers	8,148,709	1,075,192	1,191,256	103,163	2,435,275	12,953,595
Deposits and balances due to banks	1,932,937	23,882	404	-	187,066	2,144,289
Long term loans	-	-	-	-	87,108	87,108
Interest payable and other liabilities	-	-	-	-	548,625	548,625
Insurance and life assurance funds	-	-	-	-	79,462	79,462
Minority interest	-	-	-	-	77,431	77,431
Proposed dividend	-	-	-	-	178,966	178,966
Shareholders' funds	-	-	-	-	2,187,932	2,187,932
Total liabilities and shareholders' funds	10,081,646	1,099,074	1,191,660	103,163	5,781,865	18,257,408
On Balance Sheet gap	292,153	968,658	(185,514)	2,472,855	(3,548,152)	-
Off Balance Sheet gap	-	-	-	-	-	-
Cumulative interest rate sensitivity gap-1998	292,153	968,658	(185,514)	2,472,855	(3,548,152)	-
Cumulative interest rate sensitivity gap-1997	1,128,755	675,334	(709,843)	1,977,621	(3,071,867)	-

Effective interest rate on bank placements and certificates of deposits with central bank was 5.5% (1997-5.4%), on loans and advances 10.6% (1997-10.8%), on customer deposits 4.8% (1997-4.9%) and on bank borrowings 3.2% (1997-4.0%).

Maturities of assets and liabilities have been determined on the basis of contractual repricing or maturity dates, whichever date is earlier.

21 MATURITIES OF ASSETS AND LIABILITIES - 1998

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
Assets					
Cash and balances with central bank	1,169,571	7,481	-	-	1,177,052
Deposits and balances due from bank	3,761,318	641,547	55,692	140,470	4,599,027
Advances to customers less provisions	6,045,147	863,365	830,588	3,003,423	10,742,523
Interest receivable and other assets	116,172	171,749	1,171	95	289,187
Investments	63,158	58,604	385,823	651,155	1,158,740
Fixed assets	8,110	5,454	10,885	266,430	290,879
Total assets	11,163,476	1,748,200	1,284,159	4,061,573	18,257,408
Liabilities and shareholders' funds					
Deposits from customers	10,474,198	1,166,260	1,204,192	108,945	12,953,595
Deposits and balances due to Banks	2,120,003	23,882	404	-	2,144,289
Long term loans	-	-	-	87,108	87,108
Interest payable and other liabilities	350,976	23,202	156,231	18,216	548,625
Insurance and life assurance funds	-	-	-	79,462	79,462
Minority interest	-	-	-	77,431	77,431
Proposed dividend	178,966	-	-	-	178,966
Shareholders' funds	-	-	-	2,187,932	2,187,932
Total liabilities and shareholders' funds	13,124,143	1,213,344	1,360,827	2,559,094	18,257,408
Maturity profile 1997:					
Assets - 1997	11,464,777	1,681,614	890,383	3,263,278	17,300,052
Liabilities - 1997	11,894,965	1,258,418	1,616,379	2,530,290	17,300,052

Maturities of assets and liabilities have been determined on the basis of remaining period from the balance sheet date to the contractual maturity date.

GROUP FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

22 GEOGRAPHIC DISTRIBUTION OF ASSETS & LIABILITIES

Geographic Region	1998			1997		
	Assets	Liabilities	Off Balance Sheet items	Assets	Liabilities	
	AED'000	AED'000	AED'000	AED'000	AED'000	
Middle East	13,624,336	16,903,857	15,853,726	12,435,323	15,703,940	1
OECD	2,682,072	410,934	164,178	3,096,079	652,994	
Others	1,951,000	942,617	689,800	1,768,650	943,118	1
	<u>18,257,408</u>	<u>18,257,408</u>	<u>16,707,704</u>	<u>17,300,052</u>	<u>17,300,052</u>	<u>13</u>

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities are not significantly different to the amounts which they are carried in the Balance Sheet.

24 SEGMENTAL INFORMATION

The Bank's operating results arise mainly from the activities of commercial banking, retail banking and financial activities from its operations based in the United Arab Emirates and overseas.

25 RISK MANAGEMENT

Credit Risk

Policies relating to credit are reviewed and approved by the Bank's Credit Policy Committee. All credits lines are approved centrally for UAE branches, and for overseas branches by Banks Credit Division and Central Credit Committee in accordance with Bank's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank further limits its exposure through diversification of its assets by geography and industry sector limits.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Risk Management Division and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Bank's Credit Policy Committee and are monitored by the Financial Institutions Division.

Foreign Exchange Risk

Foreign Exchange and Derivatives Trading for the account of the Bank is managed by a very limited proprietary foreign exchange trading limit. However, treasury activities are primarily focussed towards meeting the requirements of customers to manage their foreign exchange exposure. These dealings with and exposure to financial markets are matched by equal and opposite dealings and exposure to corporate customers.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Bank does maintain a long US dollar position within limits approved by the Bank's Asset & Liability Committee (ALCO). As of December 31, 1998, the Bank's other net foreign exchange exposure was not significant.

Appropriate segregation of duties exists between front desk and back office functions whilst compliance with position limits is independently monitored on an ongoing basis.

Interest Rate and Liquidity Risk

The Bank's Asset & Liability Committee (ALCO) monitors and sets policies for interest rate and liquidity risk management.

ALCO meets on a monthly basis to review liquidity ratios, gaps and economic scenarios, and formulates guidelines accordingly on a continual basis. Periodic stress tests simulations are performed in order to ascertain interest rate risks. The bank is not excessively exposed to interest rate risk.

ALCO also fixes limits for liquidity ratios and monitors them closely. Liquidity management policies are set to ensure that, even under adverse conditions, the Bank is in a position to meet its obligations.