



# PUBLICATION

LC9607

**MashreqBank PSC Group**

**Annual report and audited  
consolidated financial statements  
for the year ended December 31, 1999**



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**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 of December 31, 1999, and the related consolidated statements of income and retained earnings, changes in equity and cash flows for the year then ended. 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 that we 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 used 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, 1999 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 included 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, there were 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 10, 2000**

*Deloitte & Touche*

Ref: O:\7848fin9

**MashreqBank PSC Group**  
**Consolidated balance sheet at December 31**

|                                                  | Note | 1999<br>AED'000   | 1999<br>US\$'000<br>Equivalent | 1998<br>AED'000   | 1998<br>US\$'000<br>Equivalent |
|--------------------------------------------------|------|-------------------|--------------------------------|-------------------|--------------------------------|
| <b>Assets</b>                                    |      |                   |                                |                   |                                |
| Cash and balances with central banks             | 3    | 2,210,412         | 601,800                        | 1,177,052         | 320,461                        |
| Deposits and balances due from banks             | 4    | 4,706,173         | 1,281,288                      | 4,599,027         | 1,252,117                      |
| Advances to customers less provisions            | 5    | 11,159,374        | 3,038,218                      | 10,742,523        | 2,924,727                      |
| Interest receivable and other assets             | 6    | 330,071           | 89,864                         | 289,187           | 78,733                         |
| Investments                                      | 7    | 1,291,010         | 351,487                        | 1,158,740         | 315,475                        |
| Fixed assets                                     | 8    | 283,204           | 77,104                         | 290,879           | 79,194                         |
| <b>Total assets</b>                              |      | <b>19,980,244</b> | <b>5,439,761</b>               | <b>18,257,408</b> | <b>4,970,707</b>               |
| <b>Liabilities</b>                               |      |                   |                                |                   |                                |
| Deposits from customers                          |      | 14,081,652        | 3,833,828                      | 12,953,595        | 3,526,707                      |
| Deposits and balances due to banks               | 9    | 2,528,646         | 688,442                        | 2,144,289         | 583,797                        |
| Long-term loans                                  | 10   | 80,191            | 21,832                         | 87,108            | 23,716                         |
| Interest payable and other liabilities           |      | 603,263           | 164,242                        | 548,625           | 149,367                        |
| Insurance and life assurance funds               | 11   | 70,271            | 19,132                         | 79,462            | 21,634                         |
| Minority interest                                |      | 80,709            | 21,974                         | 77,431            | 21,081                         |
| <b>Total liabilities</b>                         |      | <b>17,444,732</b> | <b>4,749,450</b>               | <b>15,890,510</b> | <b>4,326,302</b>               |
| <b>Shareholders' funds</b>                       |      |                   |                                |                   |                                |
| Share capital                                    | 12   | 715,864           | 194,899                        | 596,553           | 162,416                        |
| Statutory and legal reserves                     |      | 361,044           | 98,297                         | 360,651           | 98,190                         |
| General reserve                                  |      | 312,000           | 84,944                         | 312,000           | 84,944                         |
| Proposed bonus shares                            |      | -                 | -                              | 119,311           | 32,483                         |
| Retained earnings                                |      | 1,093,939         | 297,832                        | 922,983           | 251,288                        |
| Cumulative translation adjustment                |      | (126,301)         | (34,386)                       | (123,566)         | (33,641)                       |
| <b>Proposed dividend</b>                         |      | <b>2,356,546</b>  | <b>641,586</b>                 | <b>2,187,932</b>  | <b>595,680</b>                 |
|                                                  |      | <b>178,966</b>    | <b>48,725</b>                  | <b>178,966</b>    | <b>48,725</b>                  |
| <b>Total shareholders' funds</b>                 |      | <b>2,535,512</b>  | <b>690,311</b>                 | <b>2,366,898</b>  | <b>644,405</b>                 |
| <b>Total liabilities and shareholders' funds</b> |      | <b>19,980,244</b> | <b>5,439,761</b>               | <b>18,257,408</b> | <b>4,970,707</b>               |
| <b>Contra accounts (memoranda)</b>               | 14   | <b>13,239,465</b> | <b>3,604,537</b>               | <b>16,707,704</b> | <b>4,548,789</b>               |

Abdulla Ahmed Al Ghurair  
Chairman

Abdul Aziz Abdulla Al Ghurair  
Chief Executive Officer

# MashreqBank PSC Group

## Consolidated statement of net income and retained earnings for the year ended December 31

|                                                  | Note | 1999                    |                          | 1998                    |                          |
|--------------------------------------------------|------|-------------------------|--------------------------|-------------------------|--------------------------|
|                                                  |      | AED'000                 | US\$'000<br>Equivalent   | AED'000                 | US\$'000<br>Equivalent   |
| Interest income                                  |      | 1,309,616               | 356,552                  | 1,291,439               | 351,603                  |
| Interest expense                                 |      | (663,684)               | (180,693)                | (644,871)               | (175,570)                |
| <b>Net interest income</b>                       |      | <b>645,932</b>          | <b>175,859</b>           | <b>646,568</b>          | <b>176,033</b>           |
| Net commission income                            |      | 122,422                 | 33,330                   | 115,594                 | 31,471                   |
| Other income                                     | 15   | 329,941                 | 89,829                   | 390,494                 | 106,315                  |
| Transfer from inner reserve                      |      | -                       | -                        | 173,000                 | 47,100                   |
| <b>General and administrative expenses</b>       | 16   | <b>1,098,295</b>        | <b>299,018</b>           | <b>1,325,656</b>        | <b>360,919</b>           |
| <b>Provisions for loans and advances.</b>        |      | <b>(469,229)</b>        | <b>(127,751)</b>         | <b>(469,400)</b>        | <b>(127,797)</b>         |
| <b>investments and others</b>                    |      | <b>(264,256)</b>        | <b>(71,945)</b>          | <b>(324,349)</b>        | <b>(88,307)</b>          |
| <b>Income before taxes and minority interest</b> |      | <b>364,810</b>          | <b>99,322</b>            | <b>531,907</b>          | <b>144,815</b>           |
| Income taxes - current                           |      | (3,897)                 | (1,061)                  | (10,039)                | (2,733)                  |
| <b>Net income before minority interest</b>       |      | <b>360,913</b>          | <b>98,261</b>            | <b>521,868</b>          | <b>142,082</b>           |
| Minority interest                                |      | (10,598)                | (2,885)                  | (21,336)                | (5,809)                  |
| <b>Net income for the year</b>                   |      | <b>350,315</b>          | <b>95,376</b>            | <b>500,532</b>          | <b>136,273</b>           |
| <b>Retained earnings</b>                         |      |                         |                          |                         |                          |
| Balance, January 1                               |      | 922,983                 | 251,288                  | 771,763                 | 210,118                  |
| Net income for the year                          |      | 350,315                 | 95,376                   | 500,532                 | 136,273                  |
|                                                  |      | <b>1,273,298</b>        | <b>346,664</b>           | <b>1,272,295</b>        | <b>346,391</b>           |
| Transfers to:                                    |      |                         |                          |                         |                          |
| Statutory and legal reserves                     |      | (393)                   | (107)                    | (51,035)                | (13,895)                 |
| Proposed bonus shares                            |      | -                       | -                        | (119,311)               | (32,483)                 |
| Proposed dividend                                |      | (178,966)               | (48,725)                 | (178,966)               | (48,725)                 |
| <b>Balance, December 31</b>                      |      | <b>1,093,939</b>        | <b>297,832</b>           | <b>922,983</b>          | <b>251,288</b>           |
| <b>Earnings per share</b>                        | 17   | <b><u>AED 48.94</u></b> | <b><u>US\$ 13.32</u></b> | <b><u>AED 83.90</u></b> | <b><u>US\$ 22.84</u></b> |

See notes to consolidated financial statements

## MashreqBank PSC Group

Consolidated statement of changes in equity  
for the year ended December 31, 1999

|                                              | Note | Share<br>capital<br>AED'000 | Statutory<br>and legal<br>reserves<br>AED'000 | General<br>reserve<br>AED'000 | Retained<br>earnings<br>AED'000 | Proposed<br>dividend<br>AED'000 | Proposed<br>bonus<br>share<br>issue<br>AED'000 | Cumulative<br>translation<br>adjustment<br>AED'000 | Total<br>1999<br>AED'000 | Total<br>1999<br>US\$'000 |
|----------------------------------------------|------|-----------------------------|-----------------------------------------------|-------------------------------|---------------------------------|---------------------------------|------------------------------------------------|----------------------------------------------------|--------------------------|---------------------------|
| Balance at January 1, 1998                   |      | 542,321                     | 309,616                                       | 312,000                       | 771,763                         | 216,928                         | 54,232                                         | (114,786)                                          | 2,092,074                | 569,582                   |
| Net profit for the year                      |      | -                           | -                                             | -                             | 500,532                         | -                               | -                                              | -                                                  | 500,532                  | 136,273                   |
| Transfer to statutory and<br>legal reserves  | 12   | -                           | 51,035                                        | -                             | (51,035)                        | -                               | -                                              | -                                                  | -                        | -                         |
| Proposed dividend                            |      | -                           | -                                             | -                             | (178,966)                       | 178,966                         | -                                              | -                                                  | -                        | -                         |
| Dividend paid                                |      | -                           | -                                             | -                             | -                               | (216,928)                       | -                                              | -                                                  | (216,928)                | (59,060)                  |
| Bonus shares issued                          |      | 54,232                      | -                                             | -                             | -                               | -                               | (54,232)                                       | -                                                  | -                        | -                         |
| Proposed bonus shares issue                  |      | -                           | -                                             | -                             | (119,311)                       | -                               | 119,311                                        | -                                                  | -                        | -                         |
| Overseas entities, translation<br>adjustment |      | -                           | -                                             | -                             | -                               | -                               | -                                              | (8,780)                                            | (8,780)                  | (2,390)                   |
| Balance at January 1, 1999                   |      | 596,553                     | 360,651                                       | 312,000                       | 922,983                         | 178,966                         | 119,311                                        | (123,566)                                          | 2,366,898                | 644,405                   |
| Net profit for the year                      |      | -                           | -                                             | -                             | 350,315                         | -                               | -                                              | -                                                  | 350,315                  | 95,376                    |
| Transfer to statutory and<br>legal reserves  | 12   | -                           | 393                                           | -                             | (393)                           | -                               | -                                              | -                                                  | -                        | -                         |
| Proposed dividend                            |      | -                           | -                                             | -                             | (178,966)                       | 178,966                         | -                                              | -                                                  | -                        | -                         |
| Dividend paid                                |      | -                           | -                                             | -                             | -                               | (178,966)                       | -                                              | -                                                  | (178,966)                | (48,725)                  |
| Bonus shares issued                          |      | 119,311                     | -                                             | -                             | -                               | -                               | (119,311)                                      | -                                                  | -                        | -                         |
| Overseas entities, translation<br>adjustment |      | -                           | -                                             | -                             | -                               | -                               | -                                              | (2,735)                                            | (2,735)                  | (745)                     |
| Balance at December 31, 1999                 |      | 715,864                     | 361,044                                       | 312,000                       | 1,093,939                       | 178,966                         | -                                              | (126,301)                                          | 2,535,512                | 690,311                   |

See notes to consolidated financial statements

# MashreqBank PSC Group

## Consolidated statement of cash flows for the year ended December 31

|                                                               | 1999             |                        | 1998             |                        |
|---------------------------------------------------------------|------------------|------------------------|------------------|------------------------|
|                                                               | AED'000          | US\$'000<br>Equivalent | AED'000          | US\$'000<br>Equivalent |
| <b>Net income</b>                                             | <b>350,315</b>   | <b>95,376</b>          | <b>500,532</b>   | <b>136,273</b>         |
| Increase in interest receivable and other assets              | (40,884)         | (11,131)               | (40,153)         | (10,932)               |
| Increase/(decrease) in interest payable and other liabilities | 54,638           | 14,875                 | (259,991)        | (70,784)               |
| Depreciation                                                  | 52,609           | 14,323                 | 52,149           | 14,198                 |
| <b>Net cash inflow from trading activities</b>                | <b>416,678</b>   | <b>113,443</b>         | <b>252,537</b>   | <b>68,755</b>          |
| Net increase in deposits                                      | 1,128,057        | 307,121                | 535,114          | 145,688                |
| Net increase in advances to customers                         | (416,851)        | (113,491)              | (585,283)        | (159,347)              |
| Decrease in long-term loans                                   | (6,917)          | (1,884)                | (7,311)          | (1,990)                |
| Increase in deposits and balances due to banks                | 384,357          | 104,645                | 382,588          | 104,162                |
| (Decrease)/increase in insurance and life assurance funds     | (9,191)          | (2,502)                | 17,157           | 4,671                  |
| <b>Net cash inflow from operating activities</b>              | <b>1,496,133</b> | <b>407,332</b>         | <b>594,802</b>   | <b>161,939</b>         |
| <b>Financing activities</b>                                   |                  |                        |                  |                        |
| Dividend paid                                                 | (178,966)        | (48,725)               | (216,928)        | (59,060)               |
| Minority interest                                             | 3,278            | 893                    | 14,975           | 4,077                  |
| <b>Net cash outflow from financing activities</b>             | <b>(175,688)</b> | <b>(47,832)</b>        | <b>(201,953)</b> | <b>(54,983)</b>        |
| <b>Investing activities</b>                                   |                  |                        |                  |                        |
| Purchase of investments (net of disposals)                    | (132,270)        | (36,012)               | (37,263)         | (10,145)               |
| Purchase of fixed assets (net of disposals)                   | (44,934)         | (12,233)               | (38,640)         | (10,520)               |
| Cumulative translation adjustment, net                        | (2,735)          | (745)                  | (8,780)          | (2,391)                |
| <b>Net cash outflow from investing activities</b>             | <b>(179,939)</b> | <b>(48,990)</b>        | <b>(84,683)</b>  | <b>(23,056)</b>        |
| <b>Increase in cash and cash equivalents (Note 18)</b>        | <b>1,140,506</b> | <b>310,510</b>         | <b>308,166</b>   | <b>83,900</b>          |

See notes to consolidated financial statements

## MashreqBank PSC Group

### Notes to consolidated financial statements for the year ended December 31, 1999

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

The group, as at December 31, 1999, includes the following subsidiaries:

|                                                                               | Country of<br>incorporation | Ownership<br>interest<br>% |
|-------------------------------------------------------------------------------|-----------------------------|----------------------------|
| Bank of Oman Overseas (USA) Inc.                                              | USA                         | 100                        |
| Mashreq Asia Limited                                                          | Hongkong                    | 100                        |
| Osool - a Finance Company (formerly known<br>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 of MashreqBank group are prepared under the historical cost convention using International Accounting Standards including International Accounting Standard 10 (Revised 1999) "Events after the Balance Sheet Date" which has been applied before its effective date.

##### (b) Basis of consolidation

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

## **MashreqBank PSC Group**

### **2 Significant accounting policies (continued)**

#### **(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 of income ceases when the recovery of interest or principal is in doubt. Interest accruing on such advances is suspended. Commission and fee income are accounted for on the date the transaction arises. Recoveries in respect of loans fully provided are accounted for on a cash receipt basis.

Insurance premiums from general insurance activities are recognised in the accounting period in which they incept except for premium income from life assurance policies 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 for the year.

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. The 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 rates at the balance sheet date with any resultant gains or losses 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.

## MashreqBank PSC Group

### 2 Significant accounting policies (continued)

#### (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 it is the 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 premiums 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 lives 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) Pension and national insurance

Pension and national insurance for U.A.E. citizens are contributed by the Bank in accordance with Federal Law No.7 of 1999.

## MashreqBank PSC Group

### 2 Significant accounting policies (continued)

#### (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 utilizes forward foreign exchange contracts in the management of its foreign currency positions. All foreign exchange contracts 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 1998 have been reclassified in order to make them comparable with the 1999 presentation. Equivalent United States Dollars have been included in 1999 and 1998 for presentation purposes only at the translation rate of AED 3.673 for each U. S. Dollar.

### 3 Cash and balances with central banks

|                             | 1999<br>AED'000 | 1998<br>AED'000 |
|-----------------------------|-----------------|-----------------|
| Cash                        | 281,571         | 181,203         |
| Balances with Central Banks | 1,928,841       | 995,849         |
|                             | <hr/>           | <hr/>           |
|                             | 2,210,412       | 1,177,052       |
|                             | <hr/>           | <hr/>           |

At December 31, 1999, the amount of AED 486.4 million (1998 - AED 457.3 million) was placed on deposit with the U.A.E. Central Bank as required by local regulations. This deposit is interest-free.

# MashreqBank PSC Group

## 4 Deposits and balances due from banks

|                     | 1999<br>AED'000  | 1998<br>AED'000  |
|---------------------|------------------|------------------|
| Banks abroad        | 4,227,131        | 4,166,974        |
| Banks in the U.A.E. | 479,042          | 432,053          |
|                     | <u>4,706,173</u> | <u>4,599,027</u> |

## 5 Advances to customers less provisions

### a) Balances as of December 31,

|                                        | 1999<br>AED'000   | 1998<br>AED'000   |
|----------------------------------------|-------------------|-------------------|
| Loans and advances                     | 12,728,044        | 11,988,223        |
| Bills discounted                       | 410,250           | 416,707           |
|                                        | <u>13,138,294</u> | <u>12,404,930</u> |
| Less: Provision for loans and advances |                   |                   |
| Specific provision                     | (1,271,441)       | (987,434)         |
| General provision                      | (115,760)         | (201,469)         |
| Interest in suspense                   | (591,719)         | (473,504)         |
|                                        | <u>11,159,374</u> | <u>10,742,523</u> |

The Bank continues to carry classified and delinquent accounts on its books even 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 2,297 million at December 31, 1999 (1998 – AED 1,888 million).

# MashreqBank PSC Group

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

### Specific and general provision

|                                               | 1999<br>AED'000 | 1998<br>AED'000 |
|-----------------------------------------------|-----------------|-----------------|
| Balance at the beginning of the year          | 1,188,903       | 913,137         |
| Amounts written off during the year           | (40,937)        | (31,282)        |
| Provisions charged to the income statement    | 258,707         | 315,553         |
| Write back of provision for doubtful advances | (19,472)        | (8,505)         |

### Balance at end of year

|           |           |
|-----------|-----------|
| 1,387,201 | 1,188,903 |
|-----------|-----------|

### Interest in suspense

|                                      | 1999<br>AED'000 | 1998<br>AED'000 |
|--------------------------------------|-----------------|-----------------|
| Balance at the beginning of the year | 473,504         | 395,250         |
| Interest suspended during the year   | 155,293         | 128,330         |
| Amounts written off during the year  | (14,264)        | (33,604)        |
| Write back of suspended interest     | (22,814)        | (16,472)        |

### Balance at end of year

|         |         |
|---------|---------|
| 591,719 | 473,504 |
|---------|---------|

## 6 Interest receivable and other assets

|                                   | 1999<br>AED'000 | 1998<br>AED'000 |
|-----------------------------------|-----------------|-----------------|
| Interest receivable               | 47,550          | 39,643          |
| Prepaid interest and expenses     | 14,864          | 14,853          |
| Inward orders for payment pending | 5,877           | 1,837           |
| Income Taxes paid in advance      | 55,545          | 52,757          |
| Clearing suspense                 | 4,536           | 25,821          |
| Others                            | 201,699         | 154,276         |
|                                   | 330,071         | 289,187         |

## MashreqBank PSC Group

## 7 Investments

## a) In securities

|                                         | 1999<br>AED'000 | 1998<br>AED'000 |
|-----------------------------------------|-----------------|-----------------|
| Trading securities                      | 194,949         | 233,458         |
| Quoted investments                      | 624,402         | 514,346         |
| Unquoted investments                    | 147,591         | 90,373          |
|                                         | 771,993         | 604,719         |
| Less: Provision for diminution in value | (33,597)        | (33,902)        |
|                                         | 738,396         | 570,817         |
| Discretionary managed funds             | 257,110         | 257,110         |
|                                         | 995,506         | 827,927         |
| Total (a)                               | 1,190,455       | 1,061,385       |

## b) In properties

|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Interests in buildings and freehold land | 113,432   | 110,116   |
| Less: Provision for diminution in value  | (12,877)  | (12,761)  |
| Total (b)                                | 100,555   | 97,355    |
| Total (a) + (b)                          | 1,291,010 | 1,158,740 |

The market value of long-term quoted investments and discretionary managed funds held at December 31, 1999 was AED 781.9 million and AED 279.8 million respectively, (1998 - AED 741 million and AED 266.5 million).

## MashreqBank PSC Group

## 8 Fixed assets

|                                 | Total<br>AED'000 | Properties<br>for own use<br>AED'000 | Properties<br>acquired in<br>settlement<br>of debts<br>AED'000 | Improvements<br>to freehold<br>properties<br>and others<br>AED'000 | Furniture,<br>fixtures,<br>equipment &<br>vehicles<br>AED'000 |
|---------------------------------|------------------|--------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------|
| <b>Cost</b>                     |                  |                                      |                                                                |                                                                    |                                                               |
| January 1, 1999                 | 475,745          | 146,753                              | 42,055                                                         | 143,054                                                            | 143,883                                                       |
| Additions                       | 53,270           | 9,618                                | -                                                              | 22,960                                                             | 20,692                                                        |
| Disposals/write-offs            | (25,771)         | (1,133)                              | (1,437)                                                        | (10,797)                                                           | (12,404)                                                      |
| <b>December 31, 1999</b>        | <b>503,244</b>   | <b>155,238</b>                       | <b>40,618</b>                                                  | <b>155,217</b>                                                     | <b>152,171</b>                                                |
| <b>Accumulated depreciation</b> |                  |                                      |                                                                |                                                                    |                                                               |
| January 1, 1999                 | 184,866          | 44,077                               | 1,980                                                          | 57,548                                                             | 81,261                                                        |
| Charge for the year             | 52,609           | 4,184                                | 99                                                             | 26,297                                                             | 22,029                                                        |
| Disposals/write-offs            | (17,435)         | (62)                                 | (974)                                                          | (7,135)                                                            | (9,264)                                                       |
| <b>December 31, 1999</b>        | <b>220,040</b>   | <b>48,199</b>                        | <b>1,105</b>                                                   | <b>76,710</b>                                                      | <b>94,026</b>                                                 |
| <b>Net book value</b>           |                  |                                      |                                                                |                                                                    |                                                               |
| <b>December 31, 1999</b>        | <b>283,204</b>   | <b>107,039</b>                       | <b>39,513</b>                                                  | <b>78,507</b>                                                      | <b>58,145</b>                                                 |
| December 31, 1998               | 290,879          | 102,676                              | 40,075                                                         | 85,506                                                             | 62,622                                                        |

## MashreqBank PSC Group

### 9 Deposits and balances due to banks

|                               | 1999<br>AED'000  | 1998<br>AED'000  |
|-------------------------------|------------------|------------------|
| Due to overseas central banks | 25,233           | 33,016           |
| Banks abroad                  | 1,437,641        | 1,178,295        |
| Banks in the U.A.E.           | 1,065,772        | 932,978          |
|                               | <u>2,528,646</u> | <u>2,144,289</u> |

### 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 refinance is repayable within 15 years from the date of refinance.

### 11 Insurance and life assurance funds of Oman Insurance Company Limited

|                     | Outstanding<br>Claims<br>AED'000 | Unearned<br>premium<br>reserve<br>AED'000 | Additional<br>reserve<br>AED'000 | Life<br>assurance<br>fund<br>AED'000 | 1999<br>Total<br>AED'000 | 1998<br>Total<br>AED'000 |
|---------------------|----------------------------------|-------------------------------------------|----------------------------------|--------------------------------------|--------------------------|--------------------------|
| January 1.          | 20,880                           | 21,678                                    | 16,093                           | 20,811                               | 79,462                   | 62,305                   |
| (Decrease)/Increase | (350)                            | (1,918)                                   | (2,052)                          | (4,871)                              | (9,191)                  | 17,157                   |
|                     | <u>20,530</u>                    | <u>19,760</u>                             | <u>14,041</u>                    | <u>15,940</u>                        | <u>70,271</u>            | <u>79,462</u>            |

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.

## MashreqBank PSC Group

### 12 Shareholders' funds

The authorised share capital of the bank is AED 1,500 million divided into 15,000,000 ordinary shares of AED 100 each. As of December 31, 1999, 7,158,640 ordinary shares of AED 100 each (1998 - 6,000,000 ordinary shares of AED 100 each) were issued and fully paid.

In accordance with Union Law 10/80 of the 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 U. A. E. this level is 50% of the issued share capital.

### 13 Foreign restricted assets

Net assets equivalent to AED 182.8 million as of December 31, 1999 (1998 - AED 175.4 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

|                                      | 1999<br>AED'000 | 1998<br>AED'000 |
|--------------------------------------|-----------------|-----------------|
| <b>a) Contra accounts</b>            |                 |                 |
| Letters of credit                    | 1,634,732       | 1,689,017       |
| Letters of guarantee and acceptances | 5,870,743       | 5,506,245       |
| Foreign exchange contracts           |                 |                 |
| Spot and forward                     | 5,733,990       | 9,512,442       |
|                                      | <hr/>           | <hr/>           |
| Total                                | 13,239,465      | 16,707,704      |
|                                      | <hr/> <hr/>     | <hr/> <hr/>     |
| <b>b) Commitments</b>                |                 |                 |
| Uncalled capital on investments held | 14,134          | 750             |
|                                      | <hr/> <hr/>     | <hr/> <hr/>     |

# MashreqBank PSC Group

## 15 Other income

|                               | 1999<br>AED'000 | 1998<br>AED'000 |
|-------------------------------|-----------------|-----------------|
| Fees, bank charges and other  | 165,426         | 183,015         |
| Foreign exchange gains        | 58,365          | 52,147          |
| Insurance underwriting profit | 24,855          | 16,052          |
| Investment securities         | 36,171          | 109,790         |
| Recovery of bad debts         | 38,202          | 16,639          |
| Net rental income             | 6,922           | 12,851          |
|                               | <u>329,941</u>  | <u>390,494</u>  |

## 16 General and administrative expenses

General and administrative expenses include AED 41.2 million (1998 AED 48.1 million) incentive bonus to employees and executive officers of the group.

The number of employees of the group was 2226 as of December 31, 1999 (2385 as of December 31, 1998).

## 17 Earnings per share

Earnings per share calculations for 1999 and 1998 are based on ordinary shares outstanding as of December 31, after taking into consideration the bonus shares issued during the year.

# MashreqBank PSC Group

## 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:

|                                                                  | 1999<br>AED'000  | 1998<br>AED'000  | Change during<br>the year<br>AED'000 |
|------------------------------------------------------------------|------------------|------------------|--------------------------------------|
| Cash on hand, current accounts<br>and deposits with central bank | 2,210,412        | 1,177,052        | 1,033,360                            |
| Banks in the U.A.E.                                              | 479,042          | 432,053          | 46,989                               |
| Banks abroad                                                     | 4,227,131        | 4,166,974        | 60,157                               |
|                                                                  | <u>6,916,585</u> | <u>5,776,079</u> | <u>1,140,506</u>                     |
|                                                                  |                  |                  |                                      |
|                                                                  | 1998<br>AED'000  | 1997<br>AED'000  | Change during<br>the year<br>AED'000 |
| Cash on hand, current accounts<br>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>                       |

## MashreqBank PSC Group

### 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:

|                                               | 1999<br>AED'000 | 1998<br>AED'000 |
|-----------------------------------------------|-----------------|-----------------|
| Advances to customers                         | 375,820         | 291,926         |
| Deposits from customers                       | 993,543         | 864,387         |
| Letters of credit, guarantees and acceptances | 490,216         | 654,926         |

Net income for the year includes related party transaction as follows:

|                  |        |        |
|------------------|--------|--------|
| Interest income  | 21,337 | 19,803 |
| Interest expense | 48,634 | 35,968 |
| Other income     | 14,481 | 11,367 |

## MashreqBank PSC Group

## 20 Interest rate sensitivity – 1999

|                                                  | Within<br>3 months<br>AED'000 | Over<br>3 to 6<br>months<br>AED'000 | Over<br>6 to 12<br>months<br>AED'000 | Over<br>1 year<br>AED'000 | Non<br>interest<br>sensitive<br>AED'000 | Total<br>AED'000  |
|--------------------------------------------------|-------------------------------|-------------------------------------|--------------------------------------|---------------------------|-----------------------------------------|-------------------|
| <b>Assets</b>                                    |                               |                                     |                                      |                           |                                         |                   |
| Cash and balances with central banks             | 1,183,379                     | 55,522                              | -                                    | -                         | 971,511                                 | 2,210,412         |
| Deposits and balances due from banks             | 4,406,060                     | 64,831                              | 21,724                               | 36,045                    | 177,513                                 | 4,706,173         |
| Advances to customers less provisions            | 6,908,620                     | 1,221,616                           | 619,528                              | 2,078,841                 | 330,769                                 | 11,159,374        |
| Interest receivable and other assets             | -                             | -                                   | -                                    | -                         | 330,071                                 | 330,071           |
| Investments                                      | 217,170                       | 105,953                             | 41,374                               | 398,863                   | 527,650                                 | 1,291,010         |
| Fixed assets                                     | -                             | -                                   | -                                    | -                         | 283,204                                 | 283,204           |
| <b>Total assets</b>                              | <b>12,715,229</b>             | <b>1,447,922</b>                    | <b>682,626</b>                       | <b>2,513,749</b>          | <b>2,620,718</b>                        | <b>19,980,244</b> |
| <b>Liabilities and shareholders' funds</b>       |                               |                                     |                                      |                           |                                         |                   |
| Deposits from customers                          | 8,189,456                     | 1,564,155                           | 1,890,290                            | 103,805                   | 2,333,946                               | 14,081,652        |
| Deposits and balances due to banks               | 2,227,380                     | 80,692                              | 59,286                               | -                         | 161,288                                 | 2,528,646         |
| Long term loans                                  | -                             | -                                   | -                                    | -                         | 80,191                                  | 80,191            |
| Interest payable and other liabilities           | -                             | -                                   | -                                    | -                         | 603,263                                 | 603,263           |
| Insurance and life assurance funds               | -                             | -                                   | -                                    | -                         | 70,271                                  | 70,271            |
| Minority interest                                | -                             | -                                   | -                                    | -                         | 80,709                                  | 80,709            |
| Proposed dividend                                | -                             | -                                   | -                                    | -                         | 178,966                                 | 178,966           |
| Shareholders' funds                              | -                             | -                                   | -                                    | -                         | 2,356,546                               | 2,356,546         |
| <b>Total liabilities and shareholders' funds</b> | <b>10,416,836</b>             | <b>1,644,847</b>                    | <b>1,949,576</b>                     | <b>103,805</b>            | <b>5,865,180</b>                        | <b>19,980,244</b> |
| On Balance Sheet gap                             | 2,298,393                     | (196,925)                           | (1,266,950)                          | 2,409,944                 | (3,244,462)                             | -                 |
| Off Balance Sheet gap                            | -                             | -                                   | -                                    | -                         | -                                       | -                 |
| Cumulative interest rate sensitivity gap - 1999  | 2,298,393                     | 2,101,468                           | 834,518                              | 3,244,462                 | -                                       | -                 |
| Cumulative interest rate sensitivity gap - 1998  | 292,153                       | 1,260,811                           | 1,075,297                            | 3,548,152                 | -                                       | -                 |

Effective interest rate on bank placements and certificates of deposits with central bank was 5.2% (1998 – 5.5%), on loans and advances 9.7% (1998 – 10.6%), on customer deposits 4.6% (1998 – 4.8%) and on bank borrowings 3.0% (1998 – 3.2%).

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

# MashreqBank PSC Group

## 21 Maturities of Assets and Liabilities - 1999

| Assets                                | Within<br>3 months<br>AED'000 | Over<br>3 to 6<br>months<br>AED'000 | Over<br>6 to 12<br>months<br>AED'000 | Over<br>1 year<br>AED'000 | Total<br>AED'000  |
|---------------------------------------|-------------------------------|-------------------------------------|--------------------------------------|---------------------------|-------------------|
| Cash and balances with central banks  | 2,154,892                     | 55,520                              | -                                    | -                         | 2,210,412         |
| Deposits and balances due from banks  | 4,495,549                     | 64,835                              | 21,725                               | 124,064                   | 4,706,173         |
| Advances to customers less provisions | 6,397,864                     | 1,023,310                           | 830,928                              | 2,907,272                 | 11,159,374        |
| Interest receivable and other assets  | 116,071                       | 209,034                             | 4,966                                | -                         | 330,071           |
| Investments                           | 89,643                        | 95,112                              | 257,385                              | 848,870                   | 1,291,010         |
| Fixed assets                          | 5,900                         | 5,463                               | 10,796                               | 261,045                   | 283,204           |
| <b>Total assets</b>                   | <b>13,259,919</b>             | <b>1,453,274</b>                    | <b>1,125,800</b>                     | <b>4,141,251</b>          | <b>19,980,244</b> |

## Liabilities and shareholders' funds

|                                                  |                   |                  |                  |                  |                   |
|--------------------------------------------------|-------------------|------------------|------------------|------------------|-------------------|
| Deposits from customers                          | 10,472,770        | 1,600,579        | 1,901,557        | 106,746          | 14,081,652        |
| Deposits and balances due to banks               | 2,388,669         | 80,692           | 59,285           | -                | 2,528,646         |
| Long term loans                                  | -                 | -                | -                | 80,191           | 80,191            |
| Interest payable and other liabilities           | 442,259           | 70,126           | 65,312           | 25,566           | 603,263           |
| Insurance and life assurance funds               | -                 | -                | -                | 70,271           | 70,271            |
| Minority interest                                | -                 | -                | -                | 80,709           | 80,709            |
| Proposed dividend                                | 178,966           | -                | -                | -                | 178,966           |
| Shareholders' funds                              | -                 | -                | -                | 2,356,546        | 2,356,546         |
| <b>Total liabilities and shareholders' funds</b> | <b>13,482,664</b> | <b>1,751,397</b> | <b>2,026,154</b> | <b>2,720,029</b> | <b>19,980,244</b> |

## Maturity profile 1998:

|                    |            |           |           |           |            |
|--------------------|------------|-----------|-----------|-----------|------------|
| Assets - 1998      | 11,163,476 | 1,748,200 | 1,284,159 | 4,061,573 | 18,257,408 |
| Liabilities - 1998 | 13,124,143 | 1,213,344 | 1,360,827 | 2,559,094 | 18,257,408 |

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

**MashreqBank PSC Group**

**22. Geographic Distribution of Assets & Liabilities**

| Geographic Region | 1999              |                        |                                       | 1998              |                        |                                       |
|-------------------|-------------------|------------------------|---------------------------------------|-------------------|------------------------|---------------------------------------|
|                   | Assets<br>AED'000 | Liabilities<br>AED'000 | Off Balance<br>Sheet items<br>AED'000 | Assets<br>AED'000 | Liabilities<br>AED'000 | Off Balance<br>Sheet items<br>AED'000 |
| Middle East       | 14,448,332        | 17,893,740             | 12,233,563                            | 13,624,336        | 16,903,857             | 15,853,726                            |
| O.E.C.D.          | 3,298,855         | 975,354                | 322,386                               | 2,682,072         | 410,934                | 164,178                               |
| Others            | 2,233,057         | 1,111,150              | 683,516                               | 1,951,000         | 942,617                | 689,800                               |
|                   | <u>19,980,244</u> | <u>19,980,244</u>      | <u>13,239,465</u>                     | <u>18,257,408</u> | <u>18,257,408</u>      | <u>16,707,704</u>                     |

**MashreqBank PSC Group****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 the Bank's Credit Division and Central Credit Committee in accordance with the 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 risk 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, 1999, 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.

## **MashreqBank PSC Group**

### **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.