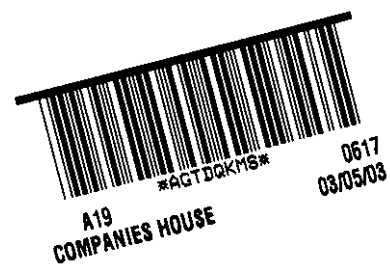


FC 9607

Mashreqbank psc Group

**Annual report and audited
consolidated financial statements
for the year ended December 31, 2002**



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**Deloitte
& Touche**

Ref.: 7848cfs02

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

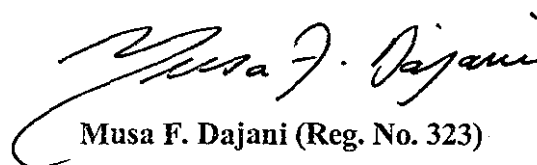
We have audited the accompanying consolidated balance sheet of **Mashreqbank psc** ("the Bank") and its Subsidiaries (collectively "the Group") as of December 31, 2002 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Directors of the Group. 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 Group as of December 31, 2002 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. 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.

Deloitte & Touche


Musa F. Dajani (Reg. No. 323)

Dubai
January 12, 2003

**Deloitte
Touche
Tohmatsu**

Mashreqbank psc Group
Consolidated Balance Sheet at

		December 31, 2002		December 31, 2001	
	Note	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Assets					
Cash and balances with central banks	3	3,079,178	838,328	5,895,498	1,605,090
Deposits and balances due from banks	4	4,563,578	1,242,466	3,697,284	1,006,612
Loans and advances (net)	5	12,582,010	3,425,540	10,533,761	2,867,891
Interest receivable and other assets	6	503,484	137,077	456,215	124,208
Investments in securities	7	2,660,916	724,453	1,792,378	487,987
Investment property	8	112,099	30,520	111,767	30,429
Fixed assets	9	181,915	49,528	213,117	58,022
Total assets		23,683,180	6,447,912	22,700,020	6,180,239
Liabilities					
Customers' deposits	10	16,713,671	4,550,414	16,111,790	4,386,548
Deposits and balances due to banks	11	2,529,103	688,566	2,666,013	725,841
Insurance and life assurance funds	12	97,273	26,483	77,254	21,033
Long-term loans	13	57,065	15,537	62,904	17,126
Interest payable and other liabilities	14	766,874	208,787	641,247	174,583
Total liabilities		20,163,986	5,489,787	19,559,208	5,325,131
Minority interest	15	139,474	37,973	110,686	30,135
Shareholders' equity					
Share capital	16(a)	715,864	194,899	715,864	194,899
Statutory and legal reserves	16(b)	366,770	99,856	362,324	98,645
General reserve		312,000	84,944	312,000	84,944
Cumulative translation adjustment		(119,387)	(32,504)	(121,199)	(32,997)
Cumulative changes in fair values and other reserves		127,365	34,676	69,722	18,982
Retained earnings		1,762,349	479,811	1,476,656	402,030
Proposed dividend		214,759	58,470	214,759	58,470
Total shareholders' equity		3,379,720	920,152	3,030,126	824,973
Total liabilities and shareholders' equity		23,683,180	6,447,912	22,700,020	6,180,239

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

The financial statements on pages 2 to 34 were approved and signed on January 12, 2003.

Abdulla Ahmed Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Mashreqbank psc Group
Consolidated Statement of Income
for the year ended

		December 31, 2002		December 31, 2001	
	Note	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Interest income		1,073,687	292,319	1,404,401	382,358
Interest expense		(398,756)	(108,564)	(769,861)	(209,600)
Net interest income		674,931	183,755	634,540	172,758
Net commission income		168,983	46,007	135,866	36,991
Other income	18	391,894	106,695	369,394	100,570
General and administrative expenses	19	1,235,808	336,457	1,139,800	310,319
Allowances for loans and advances, investments and others (net of recoveries)		(497,190)	(135,363)	(478,149)	(130,180)
Income before taxes and minority interest		533,822	145,337	437,841	119,205
Income taxes		(13,531)	(3,684)	(24,088)	(6,558)
Net income before minority interest		520,291	141,653	413,753	112,647
Minority interest		(15,393)	(4,191)	(8,011)	(2,181)
Net income for the year		504,898	137,462	405,742	110,466
Earnings per share	20	AED 70.53	US\$ 19.20	AED 56.68	US\$ 15.43
Proposed dividend per share		AED 30	US\$ 8.17	AED 30	US\$ 8.17

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

Mashreqbank psc Group

Consolidated Statement of Changes in Equity
for the year ended December 31, 2002

	Note	Share capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Cumulative changes in fair values and other reserves AED'000	Retained earnings AED'000	Proposed dividend AED'000	Total AED'000	Total US\$'000
Balance at January 1, 2001		715,864	361,769	312,000	(121,826)	-	1,286,228	157,490	2,711,525	738,231
Effect of implementation of IAS 39 at January 1, 2001		-	-	-	-	-	109,086	-	109,086	29,699
Effect of implementation of IAS 40 at January 1, 2001		-	-	-	-	-	15,775	-	15,775	4,295
Transfer to cumulative changes in fair values of investment properties		-	-	-	-	15,775	(15,775)	-	-	-
Transfer of cumulative changes in fair value of securities		-	-	-	-	109,086	(109,086)	-	-	-
Change in fair value of investment during the year		-	-	-	-	(24,918)	-	-	(24,918)	(6,784)
Net profit for the year		-	-	-	-	-	405,742	-	405,742	110,466
Transfer to statutory and legal reserves		-	555	-	-	-	(555)	-	-	-
Proposed dividend		-	-	-	-	-	(214,759)	214,759	-	-
Dividend paid		-	-	-	-	-	-	(157,490)	(157,490)	(42,877)
Overseas entities' translation adjustment		-	-	-	627	-	-	-	627	171
Minority interest in cumulative change in fair values	15	-	-	-	-	(30,221)	-	-	(30,221)	(8,228)
Balance at December 31, 2001		715,864	362,324	312,000	(121,199)	69,722	1,476,656	214,759	3,030,126	824,973
Change in fair value of investment during the year		-	-	-	-	78,308	-	-	78,308	21,320
Net profit for the year		-	-	-	-	-	504,898	-	504,898	137,462
Transfer to statutory and legal reserves		-	4,446	-	-	-	(4,446)	-	-	-
Proposed dividend		-	-	-	-	-	(214,759)	214,759	-	-
Dividend paid		-	-	-	-	-	-	(214,759)	(214,759)	(58,470)
Overseas entities' translation adjustment		-	-	-	1,812	-	-	-	1,812	493
Minority interest in cumulative change in fair values	15	-	-	-	-	(20,665)	-	-	(20,665)	(5,626)
Balance at December 31, 2002		715,864	366,770	312,000	(119,387)	127,365	1,762,349	214,759	3,379,720	920,152

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

Mashreqbank psc Group
Consolidated Statement of Cash Flows
for the year ended December 31

	2002		2001	
	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Cash flows from operating activities:				
Net income for the year	504,898	137,462	405,742	110,466
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of fixed assets	47,911	13,044	48,916	13,318
Cumulative translation adjustment, net	1,812	493	627	171
Allowance for impairment of loans and advances	264,127	71,911	205,903	56,058
Impairment in investments	-	-	9,304	2,533
Gain on sale of fixed assets	(39,610)	(10,784)	(1,286)	(350)
Gain on sale of trading investment	(25,675)	(6,990)	(11,789)	(3,210)
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	(58,513)	(15,931)	(17,765)	(4,837)
Increase in bank deposits maturing after three months	(519,103)	(141,329)	(336,920)	(91,729)
(Increase)/decrease in advances to customers	(2,312,377)	(629,561)	411,645	112,073
Increase in interest receivable and other assets	(47,269)	(12,869)	(69,020)	(18,791)
Increase in trading securities	(823,137)	(224,105)	(5,623)	(1,531)
Increase in customer deposits	601,881	163,866	23,294	6,342
Decrease in long-term loans	(5,838)	(1,590)	(9,591)	(2,611)
(Decrease)/increase in deposits and balances due to banks	(136,910)	(37,275)	210,143	57,213
Increase in insurance and life assurance funds	20,019	5,450	3,936	1,072
Increase in interest payable and other liabilities	125,627	34,203	35,493	9,663
Net cash (used in)/provided by operating activities	(2,402,157)	(654,005)	903,009	245,850
Cash flows from investing activities:				
Purchase of fixed assets	(31,069)	(8,459)	(16,034)	(4,365)
Proceeds from sale of fixed assets	53,970	14,694	8,905	2,424
Sale/(purchase) of non-trading investments, net	37,585	10,233	(248,609)	(67,685)
Net cash provided by/(used in) investing activities	60,486	16,468	(255,738)	(69,626)
Cash flows from financing activities:				
Dividend paid	(214,759)	(58,470)	(157,490)	(42,877)
Minority interest	28,788	7,838	794	216
Net cash used in financing activities	(185,971)	(50,632)	(156,696)	(42,661)
(Decrease)/increase in cash and cash equivalents (Note 22)	(2,527,642)	(688,169)	490,575	133,563

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

Mashreqbank psc Group

Notes to Consolidated Financial Statements for the year ended December 31, 2002

1 Status and activities

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, Pakistan, Qatar, Sri Lanka, Sudan, the United Kingdom and the United States of America.

During the year the Bank entered into an "agreement to sell" its Sri Lanka Branch effective April 1, 2002 and also agreed to spin off its Pakistan Branches into a specially formed company in which Mashreqbank will hold a minority stake (Note 31). Since these arrangements are not yet finalized, these branches continue to be included in these consolidated financial statements.

At December 31, 2002, Mashreqbank psc Group ("the Group") comprises the Bank and its following subsidiaries:

	Country of incorporation	Ownership interest %
Mashreq Asia Limited	Hong Kong	100
Osool - a Finance Company	United Arab Emirates	98
Oman Insurance Company Limited	United Arab Emirates	63.65
Mindscape Information Technology	United Arab Emirates	99
Mashreq Securities LLC	United Arab Emirates	99

Ersal FZ LLC, a 99% owned subsidiary, which was included in the consolidated Group accounts in 2001 was dissolved in the current year.

2 Significant accounting policies

(a) Accounting convention

- (i) The consolidated financial statements of Mashreqbank psc Group are prepared under the historical cost convention, except for certain financial instruments and investment property which are carried at fair value, using International Accounting Standards as issued by the International Accounting Standards Committee.

Mashreqbank psc Group

2 Significant accounting policies (continued)

(ii) 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 control.

(b) Changes in accounting policies

Effective January 1, 2001, the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement". This resulted in changes in the accounting policies of the Group in respect of recognition and measurement of derivatives, as well as the measurement of certain non-derivative financial instruments.

Also, with effect from January 1, 2001, the Group adopted IAS 40, Investment Property. This resulted in changes in the accounting policy of the Group in respect of recognition and measurement of investment property.

(i) *Derivative financial instruments*

As at the beginning of the financial year 2001, the Group recognized for the first time the fair value of all derivative financial instruments in its balance sheet as either assets or liabilities at their fair values. Gains or losses (net of adjustments to related assets or liabilities) on fair value hedges at December 31, 2000 were adjusted against the balance of retained earnings on January 1, 2001.

(ii) *Non-derivative financial instruments*

Effective January 1, 2001, the Group reclassified its investments into "originated loans and receivables", "held to maturity", "available for sale" and "trading" and re-measured to fair value those investments classified as "available for sale". The gain or loss on remeasuring to fair value was taken to retained earnings on January 1, 2001. As permitted by IAS 39, the Bank elected that subsequent changes in fair value relating to "available for sale" investments will be taken to equity.

(iii) *Effect of the changes in accounting policy with respect to IAS 39 and IAS 40*

In accordance with the transitional provisions of IAS 39 and IAS 40, the Group had elected to account for the changes in accounting policies with effect from January 1, 2001 and not to restate fiscal 2000 comparative amounts. In relation to this change in policy, the effect of the change has been to increase the carrying amount of investments by AED 109.1 million and AED 15.775 million respectively with a corresponding increase to the opening retained earnings as of January 1, 2001. This adjustment had been reflected in the statement of changes in equity for the year ended December 31, 2001.

Mashreqbank psc Group

2 Significant accounting policies (continued)

(c) Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognized on the settlement date.

(d) Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive and in liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to income for the period and disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a forecasted transaction / firm commitment that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e., the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized in the statement of income.

Mashreqbank psc Group

2 Significant accounting policies (continued)

Derivative financial instruments and hedging (continued)

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the statement of income for the period.

(e) Revenue recognition

Interest income and expense are recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. When the interest or principal is in doubt, the recognition of income ceases. Commission and fee income are generally 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 and premium income on marine cargo policies which is accounted for on the expected date of voyage. Insurance policy acquisition and maintenance costs are charged to expense as incurred.

Mashreqbank psc Group

2 Significant accounting policies (continued)

(f) Foreign currencies

The reporting currency of the Group is the U.A.E. Dirham (AED). However, for presentation purposes only, additional columns for US Dollar equivalent amounts have been presented in the consolidated financial statements.

Transactions denominated in foreign currencies are recorded in their respective local currencies at the rates of exchange prevailing at the time of the transactions. Monetary 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.

Monetary 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, and non-monetary assets and liabilities are translated at historical rates of exchange. Income and expenses are translated at average rates of exchange during the year. The resulting differences are included under shareholders' equity as cumulative translation adjustment.

(g) Loans and advances

Loans and advances are stated at cost less any amounts written off and allowance for impairment. They include investments in debt instruments acquired from the original issuer, which are classified as "originated loans and receivables".

Allowance for impairment is made against loans and advances when their recovery is in doubt and as per Central Bank guidance taking into consideration IAS 39 requirements for fair value measurement.

(h) Investments

Trading portfolio

These are carried at fair value with any gain or loss arising from changes in fair value included in the statement of income for the period in which it arises.

Non-trading investments

These are classified as follows:

- Held-to-maturity
- Available for sale

Mashreqbank psc Group**2 Significant accounting policies (continued)****(h) Investments (continued)***Non-trading investments (continued)*

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

Premiums and discounts on investments designated as held to maturity or available for sale are amortized on a systematic basis to maturity using the effective interest method and taken to interest income.

Held-to-maturity

Investments which have fixed or determinable payments and which are intended to be held-to-maturity, are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the period. In relation to investments, which are part of an effective hedging relationship, any gain or loss arising from a change in fair value is recognised directly in the statement of income.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows, or the underlying net asset base of the investment.

Mashreqbank psc Group

2 Significant accounting policies (continued)

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised for the difference between the recoverable amount and the carrying amount as follows:

For financial assets at amortised cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the statement of income. For financial assets at fair value – where a loss has been recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss, recognised in equity, is transferred to the statement of income.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

(i) Investment property

Investment property comprises investment in buildings and freehold land held for capital appreciation and to earn rentals. These are initially stated at cost comprising purchase price and any directly attributable expenditure. For subsequent measurement purposes, the Group has chosen the fair value model as permitted by IAS 40, "Investment property", under which the investment property is carried at fair value.

(j) Fixed assets and depreciation

Land, buildings, equipment, office furniture and vehicles are stated at cost less accumulated depreciation. 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 are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Mashreqbank psc Group

2 Significant accounting policies (continued)

(k) Staff end-of-service 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. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

(l) Pension and national insurance

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

(m) 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 operating in taxable jurisdictions.

(n) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the balance sheet only when there is a legally enforceable right to set off the recognized amounts or when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(o) Off balance sheet financial instruments

The Group 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 Income.

3 Cash and balances with central banks

	2002 AED'000	2001 AED'000
Cash	114,004	96,545
Balances with central banks	2,965,174	5,798,953
	3,079,178	5,895,498

In accordance with regulations, the Bank is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements.

Mašhreqbank psc Group

4 Deposits and balances due from banks

	2002 AED'000	2001 AED'000
Banks abroad	3,605,194	3,249,903
Banks in the U.A.E.	958,384	447,381
	<u>4,563,578</u>	<u>3,697,284</u>

5 Loans and advances (net)

	2002 AED'000	2001 AED'000
(a)		
Overdrafts	2,373,751	2,488,303
Loans	10,960,229	8,523,373
Credit cards	552,083	425,876
Other	33,792	247,558
	<u>13,919,855</u>	<u>11,685,110</u>
Less: Allowance for impairment	<u>(1,337,845)</u>	<u>(1,151,349)</u>
	<u>12,582,010</u>	<u>10,533,761</u>

- (b) Loans include an amount equivalent to AED 367.3 million (2001: AED 367.3 million) which is secured by bonds held by the Bank in a fiduciary capacity.

Mashreqbank psc Group

	2002 AED'000	2001 AED'000
(c) Analysis by economic activities		
Manufacturing	1,892,290	1,174,253
Construction	988,059	1,012,506
Trade	3,080,156	2,683,704
Transport and communication	534,107	233,274
Services	1,582,021	1,206,462
Banks	64,860	71,016
Personal	4,713,784	4,422,055
Government	91,850	109,215
Others	972,728	772,625
	<u>13,919,855</u>	<u>11,685,110</u>
Less: Allowance for impairment	<u>(1,337,845)</u>	<u>(1,151,349)</u>
	<u>12,582,010</u>	<u>10,533,761</u>

(d) At December 31, 2002 the fair values of collateral taken was AED 3,848 million (2001: AED 4,012 million).

(e) The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% allowance for impairment. 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 1,373 million at December 31, 2002 (2001: AED 1,285 million). Accounts, fully provided for, written off during the year amounted to AED 190.7 million (2001: AED 1,629 million).

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- (f) The movements in the allowance for the impairment of loans and advances during the year were as follows:

	2002 AED'000	2001 AED'000
Balance at beginning of the year	1,151,349	2,313,232
Impairment allowance for the year	434,443	496,884
Amounts written off during the year	(190,763)	(1,628,724)
Recoveries during the year	(57,184)	(30,043)
Balance at end of year	1,337,845	1,151,349

The amount of impairment allowance for the year includes interest accrued on impaired loans and advances for litigation purposes which is not charged to income.

6 Interest receivable and other assets

	2002 AED'000	2001 AED'000
Interest receivable	62,573	92,812
Prepaid interest and expenses	20,755	16,497
Inward orders for payment pending	7,346	14,876
Income taxes paid in advance	46,541	56,141
Clearing suspense	4,196	7,265
Positive fair value of derivatives (Note 29)	186,624	67,962
Others	175,449	200,662
	503,484	456,215

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7 Investments in securities

	2002 AED '000	2001 AED '000
Trading Portfolio		
Debt securities	598,298	41,872
Equities	71,954	104,688
Discretionary managed fund	556,995	307,623
Other investments	174,988	124,915
	<u>1,402,235</u>	<u>579,098</u>
Available for Sale		
Debt securities	437,845	289,177
Equities	516,928	440,180
Others	23,094	6,146
	<u>977,867</u>	<u>735,503</u>
Held-to-Maturity		
Debt securities	<u>280,814</u>	<u>477,777</u>
Total	<u><u>2,660,916</u></u>	<u><u>1,792,378</u></u>

The market value of investments classified under Held-to-Maturity amounted to AED 290 million as on December 31, 2002 (2001: AED 487 million).

8 Investment property

	2002 AED'000	2001 AED'000
Interest in buildings and freehold land	111,767	111,767
Disposals during the year	(2,809)	-
Change in fair value during the year	3,141	-
	<u>112,099</u>	<u>111,767</u>

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9 Fixed assets

	Total AED'000	Properties for own use AED'000	Properties acquired in settlement of debts AED'000	Improvements to freehold properties and others AED'000	Furniture, fixtures, equipment & vehicles AED'000
Cost					
January 1, 2002	476,720	153,919	32,677	166,583	123,541
Additions	31,069	-	-	11,022	20,047
Disposals/write-offs	(64,398)	(837)	(11,807)	(44,400)	(7,354)
December 31, 2002	443,391	153,082	20,870	133,205	136,234
Accumulated Depreciation					
January 1, 2002	263,603	57,841	1,247	117,260	87,255
Charge for the year	47,911	4,963	70	26,357	16,521
Disposals/write-offs	(50,038)	(162)	-	(43,786)	(6,090)
December 31, 2002	261,476	62,642	1,317	99,831	97,686
Net Book Value					
December 31, 2002	181,915	90,440	19,553	33,374	38,548
December 31, 2001	213,117	96,078	31,430	49,323	36,286

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 80.753 million (2001: AED 149.305 million).

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10 Customers' deposits

	2002 AED'000	2001 AED'000
Time deposits	13,825,705	13,497,676
Saving accounts	461,872	459,600
Current and other accounts	2,426,094	2,154,514
	<u>16,713,671</u>	<u>16,111,790</u>

11 Deposits and balances due to banks

	2002 AED'000	2001 AED'000
Due to overseas central banks	6,340	10,456
Banks abroad	1,775,563	1,938,713
Banks in the U.A.E.	747,200	716,844
	<u>2,529,103</u>	<u>2,666,013</u>

Included under borrowings from banks abroad is an amount of US\$ 100 million being a loan obtained through a syndicate of banks. The loan is repayable in one installment due in August 2003. However, the Bank has the option of prepayment of the loan in part or in full. The term loan carries a floating rate of interest, which is fixed by reference to 3 or 6 months LIBOR.

12 Insurance and life assurance funds of Oman Insurance Company Limited

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	2002 Total AED'000	2001 Total AED'000
January 1,	24,698	28,453	13,698	10,405	77,254	73,318
Increase	4,257	9,808	4,549	1,405	20,019	3,936
	<u>28,955</u>	<u>38,261</u>	<u>18,247</u>	<u>11,810</u>	<u>97,273</u>	<u>77,254</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.

13 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 loans and advances.

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14 Interest payable and other liabilities

	2002 AED '000	2001 AED '000
Accrued interest payable	91,220	100,654
Interest and income received in advance	23,194	27,525
Provision for staff terminal benefits	62,607	59,285
Provision for taxation	51,118	56,525
Pay orders issued	37,574	35,706
Negative fair value of derivatives (Note 29)	184,914	66,020
Others	316,247	295,532
	<u>766,874</u>	<u>641,247</u>

15 Minority interest

	2002 AED'000	2001 AED'000
Balance as at January 1	110,686	79,671
Dividends	(7,270)	(7,217)
Share in changes in fair values	20,665	30,221
Share of net income for the year	15,393	8,011
	<u>139,474</u>	<u>110,686</u>

16 Shareholders' equity**(a) Share capital**

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, 2002, 7,158,638 ordinary shares of AED 100 each (2001: 7,158,638 ordinary shares of AED 100 each) were issued and fully paid.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of the U.A.E., 10% of the net income for the year is to be transferred to statutory reserve. 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. The legal reserve relates to the Bank's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

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17 Contra accounts and commitments

	2002 AED'000	2001 AED'000
(a) Contra accounts (memoranda)		
Guarantees	6,367,593	6,180,423
Letters of credit	2,300,483	1,462,274
Acceptances	779,882	450,419
	9,447,958	8,093,116
(b) Derivative financial instruments (Note 29)	12,386,644	9,392,014
(c) Other commitments		
Uncalled capital on investments held	5,842	5,842
Total contra account and commitments (a + b + c)	<u>21,840,444</u>	<u>17,490,972</u>

(d) Contra accounts – maturity profile

The maturity profile of the Bank's contra accounts were as follows:

	2002				
	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
Guarantees	4,936,460	482,935	611,342	336,856	6,367,593
Letters of credit	1,455,076	380,381	367,834	97,192	2,300,483
Acceptances	592,828	140,302	22,280	24,472	779,882
Total	<u>6,984,364</u>	<u>1,003,618</u>	<u>1,001,456</u>	<u>458,520</u>	<u>9,447,958</u>
	2001				
	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
Guarantees	4,252,594	615,368	788,181	524,280	6,180,423
Letters of credit	939,760	263,642	244,587	14,285	1,462,274
Acceptances	335,241	103,324	7,148	4,706	450,419
Total	<u>5,527,595</u>	<u>982,334</u>	<u>1,039,916</u>	<u>543,271</u>	<u>8,093,116</u>

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18 Other income

	2002 AED'000	2001 AED'000
Fees, bank charges and other	238,803	207,069
Foreign exchange gains	59,918	50,488
Insurance underwriting profit	48,592	34,779
Investment securities	40,122	72,440
Net rental income	4,459	4,618
	<u>391,894</u>	<u>369,394</u>

19 General and administrative expenses

	2002 AED'000	2001 AED'000
Salaries and employee related expenses	285,480	282,980
Occupancy cost	30,377	31,012
Depreciation	47,911	48,915
Other general and administration expenses	133,422	115,242
	<u>497,190</u>	<u>478,149</u>

General and administrative expenses include AED 54.7 million (2001: AED 40.7 million) incentive bonus to employees and executive officers of the Group.

The number of employees of the Group was 1,778 as of December 31, 2002 (1,758 as of December 31, 2001).

20 Earnings per share

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

	2002	2001
Net income for the year (AED'000)	504,898	405,742
Number of ordinary shares outstanding	<u>7,158,638</u>	<u>7,158,638</u>
Earnings per share (AED)	<u>70.53</u>	<u>56.68</u>

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21 Foreign restricted assets

Net assets equivalent to AED 128.8 million as of December 31, 2002 (2001: AED 112.6 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.

22 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Central Bank certificates of deposits, balances with banks, money market placements and deposits, as follows:

(i)	2002	2001
	AED'000	AED'000
Cash on hand, current accounts and deposits with central banks	3,079,178	5,895,498
Banks in the U.A.E.	958,384	447,381
Banks abroad	3,605,194	3,249,903
	<u>7,642,756</u>	<u>9,592,782</u>
Less: Deposits with central banks for regulatory purposes	(476,326)	(417,813)
Less: Deposits maturing after 3 months	(1,259,563)	(740,460)
	<u>5,906,867 (a)</u>	<u>8,434,509 (b)</u>
Decrease in cash and cash equivalents – 2002 [(a) – (b)]		<u>(2,527,642)</u>
(ii)	2001	2000
	AED'000	AED'000
Cash on hand, current accounts and deposits with central banks	5,895,498	5,684,607
Banks in the U.A.E.	447,381	263,151
Banks abroad	3,249,903	2,799,764
	<u>9,592,782</u>	<u>8,747,522</u>
Less: Deposits with central banks for regulatory purposes	(417,813)	(400,048)
Less: Deposits maturing after 3 months	(740,460)	(403,540)
	<u>8,434,509 (a)</u>	<u>7,943,934 (b)</u>
Increase in cash and cash equivalents – 2001 [(a) – (b)]		<u>490,575</u>

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23 Related party transactions

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

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

	2002 AED'000	2001 AED'000
Advances to customers	414,709	286,287
Deposits from customers	978,878	570,605
Letters of credit, guarantees and acceptances	751,889	636,639

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

Interest income	13,831	24,294
Interest expense	11,524	22,257
Other income	26,753	15,870

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24 Interest rate sensitivity – 2002

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at December 31, 2002 was as follows:

	Within 3 months AED'000	3 to 6 months AED'000	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 banks	2,271,890	19,669	-	-	787,619	3,079,178
Deposits and balances due from banks	3,239,942	533,213	457,280	259,854	73,289	4,563,578
Advances to customers less provisions	7,467,860	1,345,815	1,369,882	2,303,236	95,217	12,582,010
Interest receivable and other assets	-	-	-	-	503,484	503,484
Investments in securities	780,432	288,701	62,840	876,702	652,241	2,660,916
Investment properties	-	-	-	-	112,099	112,099
Fixed assets	-	-	-	-	181,915	181,915
Total assets	13,760,124	2,187,398	1,890,002	3,439,792	2,405,864	23,683,180
Liabilities and shareholders' equity						
Customers' deposits	9,554,290	1,539,436	1,228,403	670,187	3,721,355	16,713,671
Deposits and balances due to banks	2,107,063	107,628	2,307	184,068	128,037	2,529,103
Insurance and life assurance funds	-	-	-	-	97,273	97,273
Long term loans	-	-	-	-	57,065	57,065
Interest payable and other liabilities	-	-	-	-	766,874	766,874
Minority interest	-	-	-	-	139,474	139,474
Proposed dividend	-	-	-	-	214,759	214,759
Shareholders' equity	-	-	-	-	3,164,961	3,164,961
Total liabilities and shareholders' equity	11,661,353	1,647,064	1,230,710	854,255	8,289,798	23,683,180
On Balance Sheet gap	2,098,771	540,334	659,292	2,585,537	(5,883,934)	-
Off Balance Sheet gap	103,894	424,415	(12,305)	(516,004)	-	-
Cumulative interest rate sensitivity gap - 2002	2,202,665	3,167,414	3,814,401	5,883,934	-	-
Cumulative interest rate sensitivity gap - 2001	2,154,685	3,343,607	2,516,886	4,640,268	-	-

The effective interest rate* on bank placements and certificates of deposits with central bank was 2.3%(2001: 4.7%), on loans and advances 7.9% (2001: 9.4%), on customer deposits 1.9%(2001: 4.2%) and on bank borrowings 2.2% (2001: 4%).

*The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortized cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments, such as interest rate swaps and forward rate agreements which are used to manage the interest rate risk.

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25 Maturities of Assets and Liabilities - 2002

	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 banks	3,013,461	19,669	-	46,048	3,079,178
Deposits and balances due from banks	3,304,014	511,167	466,504	281,893	4,563,578
Advances to customers less provisions	6,203,434	1,740,665	1,237,295	3,400,616	12,582,010
Interest receivable and other assets	117,157	386,327	-	-	503,484
Investments in securities	1,458,999	11,702	757,893	432,322	2,660,916
Investment properties	-	-	-	112,099	112,099
Fixed assets	-	-	-	181,915	181,915
Total assets	14,097,065	2,669,530	2,461,692	4,454,893	23,683,180
Liabilities and shareholders' equity					
Customers' deposits	13,231,627	1,557,051	1,246,755	678,238	16,713,671
Deposits and balances due to banks	2,235,100	107,628	2,307	184,068	2,529,103
Insurance and life assurance funds	-	-	-	97,273	97,273
Long term loans	-	-	-	57,065	57,065
Interest payable and other liabilities	657,344	46,409	48,246	14,875	766,874
Minority interest	-	-	-	139,474	139,474
Proposed dividend	214,759	-	-	-	214,759
Shareholders' equity	-	-	-	3,164,961	3,164,961
Total liabilities and shareholders' equity	16,338,830	1,711,088	1,297,308	4,335,954	23,683,180
Maturity profile 2001:					
Total assets - 2001	13,332,544	3,040,445	1,897,847	4,429,184	22,700,020
Total liabilities and shareholders' equity - 2001	14,686,903	2,402,971	1,753,442	3,856,704	22,700,020

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.

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26 Concentrations of Assets, Liabilities and Off Balance Sheet Items

Geographic regions

	2002			2001		
	Assets	Liabilities	Off Balance Sheet items	Assets	Liabilities	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Middle East	17,734,201	21,978,977	9,120,899	18,278,906	20,730,625	7,790,453
O.E.C.D.	4,234,406	558,748	184,351	2,647,909	482,097	180,177
Others	1,714,573	1,145,455	142,708	1,773,205	1,487,298	122,486
Total	23,683,180	23,683,180	9,447,958	22,700,020	22,700,020	8,093,116

Industry Sector

	2002			2001		
	Assets	Liabilities	Off Balance Sheet items	Assets	Liabilities	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Commercial & Business	8,280,924	7,776,158	7,587,360	5,972,367	5,890,918	6,701,773
Personal	4,061,880	7,236,158	58,168	3,918,283	7,689,006	37,303
Financial institutions	9,749,835	4,696,188	1,773,033	10,886,718	3,515,400	1,334,425
Others	1,590,541	3,974,676	29,397	1,922,652	5,604,696	19,615
Total	23,683,180	23,683,180	9,447,958	22,700,020	22,700,020	8,093,116

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27 Segmental Information

	Banking		Insurance		Total	
	2002 AED'000	2001 AED'000	2002 AED'000	2001 AED'000	2002 AED'000	2001 AED'000
Total operating income	<u>1,143,234</u>	<u>1,063,543</u>	<u>92,574</u>	<u>76,257</u>	<u>1,235,808</u>	<u>1,139,800</u>
Profit before taxation	491,991	416,048	26,438	13,782	518,429	429,830
Income tax expenses	<u>13,531</u>	<u>24,088</u>	<u>-</u>	<u>-</u>	<u>13,531</u>	<u>24,088</u>
Net profit for the year	<u>478,460</u>	<u>391,960</u>	<u>26,438</u>	<u>13,782</u>	<u>504,898</u>	<u>405,742</u>
Segment Assets	<u>23,143,766</u>	<u>22,227,220</u>	<u>539,414</u>	<u>472,800</u>	<u>23,683,180</u>	<u>22,700,020</u>
Segment Liabilities	<u>19,963,697</u>	<u>19,400,073</u>	<u>200,289</u>	<u>159,135</u>	<u>20,163,986</u>	<u>19,559,208</u>

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28 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in arm's length transaction. Consequently difference can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for originated debt securities, held to maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the originated debt securities and investments held to maturity is based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. Fair value of these investments is disclosed in Note 7. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

29 Risk management

Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

Forward rate agreements are similar to interest rate futures, but are individually negotiated they call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Mashreqbank psc Group**29 Risk management (continued)****Derivatives held for hedging purposes**

The Bank has adopted a system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates to reduce its exposure to currency to acceptable levels as determined by the Board of Directors. The Board of Directors has established levels of currency risk by setting limits on counter-party and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. Asset and liability interest rate gaps are reviewed and periodic stress tests simulations are performed in order to ascertain interest rate risks.

Foreign exchange 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 uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the interest rate risk arising from interest rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value hedges.

The table in the next page shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, or market risk.

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29 Risk management (continued)

December 31, 2002

Derivative Financial instruments	Positive fair value AED'000	Negative fair value AED'000	Netional amount AED'000	Notional amount by term of maturity				
				Up to 3 months AED'000	3 months to 6 months AED'000	6 months to one year AED'000	One year to five years AED'000	Over five years AED'000
Forward foreign exchange contracts	58,332	54,784	9,753,473	8,967,792	307,370	287,586	190,725	-
Foreign exchange options (bought)	-	6,737	428,563	243,884	173,569	11,110	-	-
Foreign exchange options (sold)	6,737	-	428,563	243,884	173,569	11,110	-	-
Interest rate swaps	120,401	122,239	1,557,351	-	-	12,305	1,026,606	518,440
Futures contracts purchased (customers)	-	441	20,879	18,487	2,392	-	-	-
Futures contracts sold (customers)	-	713	88,468	88,468	-	-	-	-
Futures contracts purchased (bank)	441	-	20,879	18,487	2,392	-	-	-
Futures contracts sold (bank)	713	-	88,468	88,468	-	-	-	-
Total	186,624	184,914	12,386,644	9,669,470	659,292	322,111	1,217,331	518,440
December 31, 2001	67,962	66,020	9,392,014	6,782,353	1,470,294	597,151	487,121	55,095

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29 Risk management (continued)

The table below shows the details of hedged items as at December 31, 2002 and 2001 - the nature of the risk being hedged, the hedging instrument and its fair value.

Description of hedged items	Fair value AED'000	Cost AED'000	Risk	Hedging instrument	Positive fair value AED'000	Negative fair value AED'000
2002:						
Fixed interest rate investment/loans	1,677,752	1,557,351	Fair value	Interest rate swap	120,401	122,239
2001:						
Fixed interest rate investment/loans	502,269	467,550	Fair value	Interest rate swap	34,719	34,226

Open Foreign Exchange Positions

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, 2002, the Bank's other net foreign exchange exposure was not significant except for AED 25 million long position in Qatari Riyals (2001: AED 43 million in Omani Riyals).

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities through risk management strategies.

Bank uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Bank's Asset & Liability Committee (ALCO). The substantial majority of the Bank's assets and liabilities re-price within one year.

Liquidity Risk

The Bank's Asset & Liability Committee (ALCO) monitors and sets policies for 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.

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.

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29 Risk management (continued)

Credit Risk

Policies relating to credit are reviewed and approved by the Bank's Credit Policy Committee. All credit lines are approved centrally for UAE branches, and for overseas branches by the Bank's Credit Risk Management 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 Review 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.

30 Fiduciary activities

Assets held by the Bank in trust, in a fiduciary and custodial capacity on behalf of its customers are not included in these financial statements. These include assets held in a fiduciary capacity for a related party as of December 31, 2002 of AED 145.907 million (2001: AED 85.066 million).

31 Capital adequacy

		2002 AED'000	2001 AED'000
Capital base	(a)	3,421,159	3,085,844
Risk weighted assets:			
On-balance sheet assets		14,814,993	12,163,022
Off-balance sheet assets		4,263,635	3,587,684
Total risk-weighted assets	(b)	19,078,628	15,750,706
Capital adequacy ratio [(a)/(b) x 100]		17.9%	19.6%

The above capital adequacy ratio is computed based on U.A.E. Central Bank's Circular.

32 Discontinuing operations

During 2002, the Board of Directors of Mashreqbank psc approved to dispose of the Bank's Sri Lanka Branch and to spin off its investment in the Bank's Pakistan Branches into a company specially formed for this purpose, wherein the Bank will have a minority stake. This was part of the restructuring strategy to streamline the Bank's overseas operations. Agreements with the respective parties were entered into during 2002. However, these arrangements were not completed as at December 31, 2002 and are expected to be finalized during the first quarter of 2003. The financial disclosures relating to discontinuing operations have not been made in these financial statements since they are not material to the Bank's total assets, liabilities, operations and cash flows.

33 Comparative financial information

Certain amounts related to 2001 have been reclassified in order to make them comparable with the 2002 presentation.