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Mashreqbank psc Group

**Annual report and audited
consolidated financial statements
for the year ended December 31, 2003**



Mashreqbank psc Group

Annual Report and Audited Consolidated Financial Statements for the year ended December 31, 2003

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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** (the "**Bank**") and **Subsidiaries** (collectively the "**Group**") as of December 31, 2003 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 Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

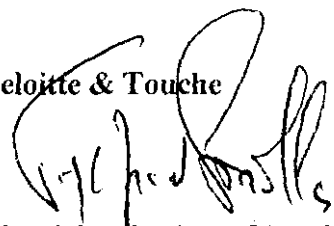
We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the result of its operations and cash flows for the year then ended in conformity with International Financial Reporting 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 of the Bank's Articles of Association which might have materially affected the financial position of the Bank or the results of its operations for the year.

**Dubai
January 12, 2004**

Deloitte & Touche



Alfred Strolla (Reg. No. 137)

**Deloitte
Touche
Tohmatsu**

Mashreqbank psc Group
Consolidated Balance Sheet as of

		December 31, 2003		December 31, 2002	
	Note	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Assets					
Cash and balances with central banks	3	2,483,731	676,213	3,079,178	838,328
Deposits and balances due from banks	4	4,905,185	1,335,471	4,563,578	1,242,466
Loans and advances (net)	5	14,738,630	4,012,695	12,582,010	3,425,540
Interest receivable and other assets	6	537,870	146,439	503,484	137,077
Investments in securities	7	3,258,756	887,219	2,660,916	724,453
Investment property	8	140,942	38,372	112,099	30,520
Fixed assets	9	171,481	46,687	181,915	49,528
Total assets		26,236,595	7,143,096	23,683,180	6,447,912
Liabilities					
Customers' deposits	10	18,763,290	5,108,437	16,713,671	4,550,414
Deposits and balances due to banks	11	2,285,995	622,378	2,529,103	688,566
Insurance and life assurance funds	12	129,173	35,168	97,273	26,483
Long-term loans	13	51,678	14,070	57,065	15,537
Interest payable and other liabilities	14	800,311	217,891	766,874	208,787
Total liabilities		22,030,447	5,997,944	20,163,986	5,489,787
Minority interest	15	216,606	58,972	139,474	37,973
Shareholders' equity					
Share capital	16(a)	715,864	194,899	715,864	194,899
Statutory and legal reserves	16(b)	371,323	101,095	366,770	99,856
General reserve	16(c)	312,000	84,944	312,000	84,944
Cumulative translation adjustment		(23,624)	(6,432)	(119,387)	(32,504)
Cumulative changes in fair values and other reserves		241,622	65,783	127,365	34,676
Retained earnings		2,121,805	577,676	1,762,349	479,811
Proposed dividends	33	250,552	68,215	214,759	58,470
Total shareholders' equity		3,989,542	1,086,180	3,379,720	920,152
Total liabilities and shareholders' equity		26,236,595	7,143,096	23,683,180	6,447,912

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

The financial statements on pages 2 to 35 were approved by the Board of Directors and signed on January ..., 2004.

Abdulla Ahmed Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Mashreqbank psc Group
Consolidated Income Statement
for the year ended

	Note	December 31, 2003		December 31, 2002	
		AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Interest income		1,109,633	302,105	1,073,687	292,319
Interest expense		(359,881)	(97,980)	(398,756)	(108,564)
Net interest income		749,752	204,125	674,931	183,755
Net commission income		190,833	51,956	168,983	46,007
Other income	18	488,053	132,876	391,894	106,695
Operating income		1,428,638	388,957	1,235,808	336,457
General and administrative expenses	19	(518,634)	(141,202)	(497,190)	(135,363)
Allowances for loans and advances, investments and others (net of recoveries)		(187,757)	(51,119)	(204,796)	(55,757)
		722,247	196,636	533,822	145,337
Profit on disposal of certain foreign branches	32	7,253	1,975	-	-
Write-off of cumulative translation adjustment on disposal of certain foreign branches	32	(91,044)	(24,787)	-	-
Income before taxes and minority interest		638,456	173,824	533,822	145,337
Taxation		1,669	454	(13,531)	(3,684)
Net income before minority interest		640,125	174,278	520,291	141,653
Minority interest		(39,441)	(10,738)	(15,393)	(4,191)
Net income for the year		600,684	163,540	504,898	137,462
Earnings per share	20	AED 8.39	US\$ 2.29	AED 7.05	US\$ 1.92

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, 2003

	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 cash dividend AED'000	Proposed bonus shares AED'000	Total AED'000	Total US\$'000
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
Changes in fair value of investments 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)	-	(214,759)	(58,470)
Overseas entities' translation adjustment		-	-	-	-	-	-	-	-	1,812	493
Minority interest in cumulative change in fair values	15	-	-	-	1,812	-	-	-	-	(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
Changes in fair value of investments during the year		-	-	-	-	174,923	-	-	-	174,923	47,624
Net profit for the year		-	-	-	-	-	600,684	-	-	600,684	163,540
Transfer to statutory and legal reserves		-	4,553	-	-	-	(4,553)	-	-	-	-
Proposed cash dividend		-	-	-	-	-	(178,966)	178,966	-	-	-
Proposed bonus shares		-	-	-	-	-	(71,586)	-	71,586	-	-
Dividend paid		-	-	-	-	-	-	(214,759)	-	(214,759)	(58,470)
Overseas entities' translation adjustment		-	-	-	-	-	-	-	-	95,763	26,072
Minority interest in cumulative change in fair values	15	-	-	-	95,763	-	-	-	-	(46,789)	(12,738)
Cumulative adjustment in fair values of investment properties		-	-	-	-	(46,789)	-	-	-	-	-
Balance at December 31, 2003		715,864	371,323	312,000	(23,624)	241,622	2,121,805	178,966	71,586	3,989,542	1,086,180

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

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

	2003		2002	
	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Cash flows from operating activities				
Net income for the year	600,684	163,540	504,898	137,462
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of fixed assets	35,791	9,744	47,911	13,044
Fair value adjustment – trading investments	(37,699)	(10,264)	(14,447)	(3,933)
Translation adjustment for the year	4,719	1,285	1,812	493
Allowance for impairment of loans and advances	179,103	48,762	264,127	71,911
Fair value adjustment – property investment	(35,441)	(9,649)	(3,141)	(855)
Gain on sale of fixed assets	(7,235)	(1,970)	(39,610)	(10,784)
Gain on sale of trading investment	(28,700)	(7,814)	(25,675)	(6,990)
Cumulative translation adjustment written off	91,044	24,787	-	-
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	(86,768)	(23,623)	(58,513)	(15,931)
Decrease/(increase) in bank deposits maturing after three months	406,470	110,664	(519,103)	(141,329)
Increase in advances to customers	(2,335,723)	(635,917)	(2,312,377)	(629,561)
Increase in interest receivable and other assets	(34,386)	(9,362)	(47,269)	(12,869)
Decrease/(increase) in trading securities - net	53,679	14,615	(808,690)	(220,172)
Increase in customer deposits	2,049,619	558,025	601,881	163,866
Decrease in long-term loans	(5,387)	(1,467)	(5,838)	(1,590)
Decrease in deposits and balances due to banks	(243,108)	(66,188)	(136,910)	(37,275)
Increase in insurance and life assurance funds	31,900	8,685	20,019	5,450
Increase in interest payable and other liabilities	33,438	9,104	125,627	34,203
Net cash provided by/(used in) operating activities	672,000	182,957	(2,405,298)	(654,860)
Cash flows from investing activities				
Purchase of fixed assets	(38,826)	(10,571)	(31,069)	(8,459)
Proceeds from sale of fixed assets	20,704	5,637	53,970	14,694
(Purchase)/sale of non-trading investments, net	(450,388)	(122,621)	40,726	11,088
Net cash (used in)/provided by investing activities	(468,510)	(127,555)	63,627	17,323
Cash flows from financing activities				
Dividend paid	(214,759)	(58,470)	(214,759)	(58,470)
Increase in minority interest	77,132	21,000	28,788	7,838
Net cash used in financing activities	(137,627)	(37,470)	(185,971)	(50,632)
Increase/(decrease) in cash and cash equivalents (Note 22)	65,863	17,932	(2,527,642)	(688,169)

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, 2003

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, Qatar, the United Kingdom and the United States of America.

At December 31, 2003, Mashreqbank psc Group (the "Group") comprises the Bank and its subsidiaries as follows:

	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

During 2002, the Bank entered into an "agreement to sell" its Sri Lanka branch effective April 1, 2002 and also agreed to transfer its investment in Pakistan branches into a specially formed company in which Mashreqbank will hold a minority stake and has no role in the day to day management of the new entity. These arrangements were finalized during 2003.

With effect from October 1, 2003, the Bank merged its Khartoum branch – Sudan with Blue Nile Bank (a banking company incorporated under the laws of Sudan) to form the Blue Nile Mashreq Bank, in which Mashreqbank holds a minority stake and has no role in the day to day management of the new entity.

The results of the operations of these branches for the period from January 1, 2003 to the date of disposal are included in the consolidated financial statements.

2. Significant accounting policies

(a) Accounting convention and basis of preparation

- (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, in accordance with International Financial Reporting Standards (IFRS) (formerly referred to as International Accounting Standards).

Mashreqbank psc Group

2. Significant accounting policies (continued)

(i) 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 are 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) Trade and settlement date accounting

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

(c) 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 values as assets where the fair values are positive and as liabilities where the fair values are negative.

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

Any changes in the fair value of derivatives that are held for trading purposes are recognized in the income statement. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting as 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.

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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 income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the income statement in the same period in which the hedged transaction affects the income statement. 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 income statement in the period in which the hedged transaction impacts the income statement.

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 income statement for the period.

(d) 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.

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2. Significant accounting policies (continued)

(e) Foreign currency transactions

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 and are written off to the income statement on closure or disposal of the related branch or subsidiary.

(f) Loans and advances

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

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement and U.A.E. Central Bank guidance.

(g) Investments

Trading portfolio

The trading portfolio is carried at fair value with any gain or loss arising from changes in fair value included in the income statement for the period in which it arises.

Non-trading investments

These are classified as follows:

- Held-to-maturity
- Available for sale

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2. Significant accounting policies (continued)

(g) 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 any 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 re-measured at fair value. Unless unrealised gains and losses on re-measurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity under the heading of cumulative changes in fair value, 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 income statement.

Fair values

For investments traded in organised financial markets, fair value is determined by reference 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.

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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, is recognized 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 income statement. 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 income statement.

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

(h) 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 with any revaluation gains or losses recognized in the income statement.

(i) Fixed assets and depreciation

Freehold land in use by the Group is carried at cost.

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:-

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

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.

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2. Significant accounting policies (continued)

(j) Repurchase transactions

Securities sold under agreements to repurchase ("repos") continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for trading or in non-trading investments. The counter party liability for amounts received under these agreements is included in due to banks.

The difference between sale and repurchase price is treated as interest expense and accrued over the life of each agreement.

(k) Employees' end-of-service indemnity

Provision is made for estimated amounts required to cover employees' 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 contributions for U.A.E. citizens are made by the Group in accordance with Federal Law No.7 of 1999.

(m) Taxes on income

Where applicable, provision is made for current and deferred taxes 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 income statement.

Mashreqbank psc Group

3. Cash and balances with central banks

	2003 AED'000	2002 AED'000
Cash on hand	126,851	114,004
Balances with central banks:		
Current accounts and other balances	68,786	292,365
Statutory cash ratio requirements	563,094	476,326
Certificates of deposit	1,725,000	2,196,483
	<u>2,483,731</u>	<u>3,079,178</u>

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

4. Deposits and balances due from banks

	2003 AED'000	2002 AED'000
Banks abroad	4,285,059	3,605,194
Banks in the U.A.E.	620,126	958,384
	<u>4,905,185</u>	<u>4,563,578</u>

5. Loans and advances (net)

	2003 AED'000	2002 AED'000
(a)		
Overdrafts	2,514,708	2,373,751
Loans	12,457,057	10,960,229
Credit cards	406,236	552,083
Other	27,653	33,792
	<u>15,405,654</u>	<u>13,919,855</u>
Less: Allowance for impairment	(667,024)	(1,337,845)
	<u>14,738,630</u>	<u>12,582,010</u>

Loans and advances include an amount of AED 36,605,118, which are debt securities classified as originated loans. These securities were sold during the year under a repurchase agreement ("repo").

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5. Loans and advances (net) – continued

	2003 AED'000	2002 AED'000
(b) Analysis by economic activities		
Manufacturing	1,860,176	1,892,290
Construction	1,155,561	988,059
Trade	3,095,997	3,080,156
Transport and communication	566,976	534,107
Services	1,631,675	1,582,021
Banks	315,846	64,860
Personal	4,777,454	4,713,784
Government/Public Sector	475,730	91,850
Others	1,526,239	972,728
	15,405,654	13,919,855
Less: Allowance for impairment	(667,024)	(1,337,845)
	14,738,630	12,582,010

(c) At December 31, 2003 the fair value of collateral held was AED 3,762 million (2002: AED 3,848 million).

(d) 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 only and accordingly 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. The value of loans and advances, including fully provided accounts on which interest is not taken to income amounted to AED 567 million at December 31, 2003 (2002: AED 1,373 million). Accounts, fully provided for that were written off during the year amounted to AED 941.5 million (2002: AED 190.7 million).

Mashreqbank psc Group

5. Loans and advances (net) - continued

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

	2003 AED'000	2002 AED'000
Balance at beginning of the year	1,337,845	1,151,349
Impairment allowance for the year	326,881	434,443
Amounts written off during the year	(941,485)	(190,763)
Recoveries during the year	(56,217)	(57,184)
Balance at end of year	667,024	1,337,845

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

6. Interest receivable and other assets

	2003 AED'000	2002 AED'000
Interest receivable	68,098	62,573
Prepaid interest and expenses	22,161	20,755
Pending inward orders for payment	20,753	7,346
Income taxes paid in advance	45,844	46,541
Clearing suspense	(698)	4,196
Positive fair value of derivatives (Note 29)	178,370	186,624
Others	203,342	175,449
	537,870	503,484

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7. Investments in securities

	2003 AED '000	2002 AED '000
Trading portfolio		
Debt securities	773,610	598,298
Equities	3,118	71,954
Discretionary managed fund	471,143	556,995
Other investments	167,084	174,988
	<u>1,414,955</u>	<u>1,402,235</u>
Available-for-sale		
Debt securities	428,508	437,845
Equities	726,185	516,928
Others	6,709	23,094
	<u>1,161,402</u>	<u>977,867</u>
Held-to-maturity		
Debt securities	682,399	280,814
	<u>682,399</u>	<u>280,814</u>
Total	<u><u>3,258,756</u></u>	<u><u>2,660,916</u></u>

The above investments include debt securities aggregating to AED 562,620,743 (held-for-trading at fair value of AED 337,741,318, available-for-sale at fair value of AED 77,959,425 and held-to-maturity at amortized cost of AED 146,920,000) sold under a repurchase agreement ("repo"). These debt securities are fully substitutable.

8. Investment property

	2003 AED'000	2002 AED'000
Interest in buildings and freehold land	112,099	111,767
Disposals during the year	(6,598)	(2,809)
Change in fair value during the year	35,441	3,141
	<u>140,942</u>	<u>112,099</u>

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9. Fixed assets

	Properties for own use AED '000	Properties acquired in settlement of debts AED '000	Improvements to freehold properties and others AED '000	Furniture, fixture, equipment & vehicles AED '000	Total AED '000
Cost					
At December 31, 2002	153,082	20,870	133,205	136,234	443,391
Additions	-	-	22,461	16,365	38,826
Disposals/write-offs	(9,415)	(3,519)	(49,938)	(26,918)	(89,790)
At December 31, 2003	143,667	17,351	105,728	125,681	392,427
Accumulated depreciation					
At December 31, 2002	62,642	1,317	99,831	97,686	261,476
Charge for the year	4,805	25	15,158	15,803	35,791
Disposals/write-offs	(1,565)	(1,342)	(48,088)	(25,326)	(76,321)
At December 31, 2003	65,882	-	66,901	88,163	220,946
Carrying amount					
At December 31, 2003	77,785	17,351	38,827	37,518	171,481
At December 31, 2002	90,440	19,553	33,374	38,548	181,915

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 73.93 million (2002: AED 80.753 million).

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10. Customers' deposits

	2003 AED'000	2002 AED'000
Time deposits	15,630,165	13,825,705
Saving accounts	414,503	461,872
Current and other accounts	2,718,622	2,426,094
	<u>18,763,290</u>	<u>16,713,671</u>

11. Deposits and balances due to banks

	2003 AED'000	2002 AED'000
Due to overseas central banks	38	6,340
Banks abroad	2,036,359	1,775,563
Banks in the U.A.E.	249,598	747,200
	<u>2,285,995</u>	<u>2,529,103</u>

Borrowings from banks abroad for 2003 include the following:

- (a) Counter party liability relating to a 3-year repurchase agreement ("repo") for AED 367,300,000 (US\$ 100 million) maturing in September 2006. The loan carries a floating rate of interest which is fixed by reference to the 3 months USD-LIBOR-BBA.
- (b) Counter party liability relating to a 3-month repurchase agreement ("repo") for AED 147,434,000 (US\$ 40.14 million) maturing in February 2004. The loan carries an interest rate fixed by reference to the 3-month LIBOR.

Borrowings from banks abroad for 2002 included an amount of AED 367,300,000 (US\$ 100 million) being a loan obtained through a syndicate of banks. The loan was repaid in one installment in August 2003. The term loan carried a floating rate of interest, which was fixed by reference to 3 or 6 months LIBOR.

12. Insurance and life assurance funds

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	2003 Total AED'000	2002 Total AED'000
January 1,	28,955	38,261	18,247	11,810	97,273	77,254
Increase/(decrease)	5,148	26,656	500	(404)	31,900	20,019
December 31,	<u>34,103</u>	<u>64,917</u>	<u>18,747</u>	<u>11,406</u>	<u>129,173</u>	<u>97,273</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.

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13. Long-term loans

These represent long-term loans provided by the Real Estate Committee of the U.A.E. to refinance real estate loans made by the Bank to various U.A.E. citizens, which are included in loans and advances.

14. Interest payable and other liabilities

	2003 AED '000	2002 AED '000
Accrued interest payable	87,309	91,220
Interest and income received in advance	28,295	23,194
Provision for staff terminal benefits	68,200	62,607
Provision for taxation	46,087	51,118
Pay orders issued	36,139	37,574
Negative fair value of derivatives (Note 29)	190,014	184,914
Others	344,267	316,247
	<u>800,311</u>	<u>766,874</u>

15. Minority interest

	2003 AED'000	2002 AED'000
Balance, beginning of year	139,474	110,686
Dividends	(9,098)	(7,270)
Share in changes in fair values	46,789	20,665
Share of net income for the year	39,441	15,393
	<u>216,606</u>	<u>139,474</u>

16. Shareholders' equity

(a) Share capital

The authorized share capital of the Bank is AED 1,500 million and was divided into 15,000,000 ordinary shares of AED 100 each. On April 3, 2003, the shareholders resolved, in their extra ordinary meeting, to split the Bank's ordinary shares 1 to 10 and bring the par value of the ordinary share to AED 10.

As of December 31, 2003, 71,586,380 ordinary shares of AED 10 each (2002: 7,158,638 ordinary shares of AED 100 each) were issued and fully paid up.

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16. Shareholders' equity (continued)

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of 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.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Ordinary General Meeting.

17. Contra accounts and commitments

	2003 AED'000	2002 AED'000
(a) Contra accounts (memoranda)		
Guarantees	7,488,141	6,367,593
Letters of credit	2,589,636	2,300,483
Acceptances	640,968	779,882
	10,718,745	9,447,958
(b) Derivative financial instruments (Note 29)	9,452,725	12,386,644
(c) Other commitments		
Uncalled capital on investments held	4,569	5,842
Total contra account and commitments (a + b + c)	<u>20,176,039</u>	<u>21,840,444</u>

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17. Contra accounts and commitments (continued)

(d) Contra accounts – maturity profile

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

	2003				Total AED'000
	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	
Guarantees	4,703,862	749,797	721,063	1,313,419	7,488,141
Letters of credit	1,640,542	602,226	253,738	93,130	2,589,636
Acceptances	384,573	125,156	87,662	43,577	640,968
Total	6,728,977	1,477,179	1,062,463	1,450,126	10,718,745

	2002				Total AED'000
	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year 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	6,984,364	1,003,618	1,001,456	458,520	9,447,958

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18. Other income

	2003 AED'000	2002 AED'000
Fees, bank charges and other services income	224,269	238,803
Foreign exchange gains (net)	62,900	59,918
Insurance underwriting profit	77,365	48,592
Investment securities income	84,545	40,122
Change in fair value of investment property	35,441	-
Net rental income	3,533	4,459
	<u>488,053</u>	<u>391,894</u>

19. General and administrative expenses

	2003 AED'000	2002 AED'000
Salaries and employee related expenses	305,930	285,480
Occupancy cost	28,995	30,377
Depreciation	35,791	47,911
Other general and administration expenses	147,918	133,422
	<u>518,634</u>	<u>497,190</u>

General and administrative expenses include AED 66.7 million (2002: AED 54.7 million) incentive bonus to employees and executive officers of the Group.

The number of employees of the Group was 1,834 as of December 31, 2003 (1,778 as of December 31, 2002).

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:

	2003	2002
Net income for the year (AED'000)	<u>600,684</u>	<u>504,898</u>
Number of ordinary shares outstanding	<u>71,586,380</u>	<u>71,586,380</u>
Earnings per share (AED)	<u>8.39</u>	<u>7.05</u>

The number of ordinary shares outstanding as of December 31, 2002 has been adjusted to reflect the share split [Note 16 (a)].

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21. Foreign restricted assets

Net assets equivalent to AED 43.647 million as of December 31, 2003 (2002: AED 128.8 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 and money market placements, as follows:

(i)	2003 AED'000	2002 AED'000
Cash on hand, current accounts and deposits with central banks	2,483,731	3,079,178
Banks in the U.A.E.	620,126	958,384
Banks abroad	4,285,059	3,605,194
	<u>7,388,916</u>	<u>7,642,756</u>
Less: Deposits with central banks for regulatory purposes	(563,094)	(476,326)
Less: Deposits maturing after 3 months	(853,092)	(1,259,563)
	<u>5,972,730 (a)</u>	<u>5,906,867 (b)</u>
Increase in cash and cash equivalents – 2003 [(a) – (b)]	<u>65,863</u>	
(i)	2002 AED'000	2001 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>	

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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. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

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

	2003 AED'000	2002 AED'000
Advances to customers	379,806	414,709
Deposits from customers	969,116	978,878
Letters of credit, guarantees and acceptances	753,932	751,889

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

Interest income	11,460	13,831
Interest expense	8,294	11,524
Other income	41,810	26,753

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24. Interest rate sensitivity – 2003

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at December 31, 2003 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	1,767,520	-	-	-	716,211	2,483,731
Deposits and balances due from banks	3,940,852	382,303	532,571	46,014	3,445	4,905,185
Loans and advances (net)	9,701,904	1,127,090	1,354,088	2,497,653	57,895	14,738,630
Interest receivable and other assets	-	-	-	-	537,870	537,870
Investments in securities	1,383,055	207,057	75,929	242,276	1,350,439	3,258,756
Investment in properties	-	-	-	-	140,942	140,942
Fixed assets	-	-	-	-	171,481	171,481
Total assets	16,793,331	1,716,450	1,962,588	2,785,943	2,978,283	26,236,595
Liabilities and shareholders' funds						
Customers' deposits	9,292,645	2,432,766	1,480,167	1,210,317	4,347,395	18,763,290
Deposits and balances due to banks	1,824,696	3,463	4,640	191,215	261,981	2,285,995
Insurance and life assurance funds	-	-	-	-	129,173	129,173
Long-term loans	-	-	-	-	51,678	51,678
Interest payable and other liabilities	-	-	-	-	800,311	800,311
Minority interest	-	-	-	-	216,606	216,606
Proposed cash dividend	-	-	-	-	178,966	178,966
Proposed bonus shares	-	-	-	-	71,586	71,586
Shareholders' funds	-	-	-	-	3,738,990	3,738,990
Total liabilities and shareholders' funds	11,117,341	2,436,229	1,484,807	1,401,532	9,796,686	26,236,595
On Balance Sheet gap	5,675,990	(719,779)	477,781	1,384,411	(6,818,403)	-
Off Balance Sheet gap	8,708	(479,329)	(80,936)	551,557	-	-
Cumulative interest rate sensitivity gap – 2003	5,684,698	4,485,590	4,882,435	6,818,403	-	-
Cumulative interest rate sensitivity gap – 2002	2,202,665	3,167,414	3,814,401	5,883,934	-	-

The effective interest rate* on bank placements and certificates of deposits with central bank was 1.46% (2002: 2.3%), on loans and advances 6.88% (2002: 7.9%), on customer deposits 1.62% (2002: 1.9%) and on bank borrowings 1.84% (2002: 2.2%).

*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 - 2003

Assets	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
Cash and balances with central banks	2,483,731	-	-	-	2,483,731
Deposits and balances due from banks	4,052,092	45,646	444,887	362,560	4,905,185
Loans and advances - net	6,913,919	1,391,327	1,350,111	5,083,273	14,738,630
Interest receivable and other assets	68,665	469,205	-	-	537,870
Investments in securities	1,414,955	-	1,161,401	682,400	3,258,756
Investment in properties	-	-	-	140,942	140,942
Fixed assets	-	-	-	171,481	171,481
Total assets	14,933,362	1,906,178	2,956,399	6,440,656	26,236,595

Liabilities and shareholders' funds

Customers' deposits	13,589,264	2,447,831	1,506,665	1,219,530	18,763,290
Deposits and balances due to banks	1,708,358	3,463	15,659	558,515	2,285,995
Insurance and life assurance funds	-	-	-	129,173	129,173
Long-term loans	-	-	-	51,678	51,678
Interest payable and other liabilities	527,390	66,947	191,014	14,960	800,311
Minority interest	-	-	-	216,606	216,606
Proposed cash dividend	178,966	-	-	-	178,966
Proposed bonus shares	-	-	-	71,586	71,586
Shareholders' funds	-	-	-	3,738,990	3,738,990
Total liabilities and shareholders' funds	16,003,978	2,518,241	1,713,338	6,001,038	26,236,595

Maturity profile 2002:

Total assets - 2002	14,097,065	2,669,530	2,461,692	4,454,893	23,683,180
Total liabilities and shareholders' equity - 2002	16,338,830	1,711,088	1,297,308	4,335,954	23,683,180

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

	2003			2002		
	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	18,425,268	24,161,545	10,310,904	17,734,201	21,978,977	9,120,899
O.E.C.D.	4,750,750	1,346,540	313,032	4,234,406	558,748	184,351
Others	3,060,577	728,510	94,809	1,714,573	1,145,455	142,708
Total	26,236,595	26,236,595	10,718,745	23,683,180	23,683,180	9,447,958

Industry Sector

	2003			2002		
	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	9,060,294	8,931,904	7,045,644	8,280,924	7,776,158	7,587,360
Personal	4,179,535	8,074,330	55,012	4,061,880	7,236,158	58,168
Financial institutions	10,374,472	4,492,361	3,563,076	9,749,835	4,696,188	1,773,033
Others	2,622,294	4,738,000	55,013	1,590,541	3,974,676	29,397
Total	26,236,595	26,236,595	10,718,745	23,683,180	23,683,180	9,447,958

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27. Segmental information

	Banking		Insurance		Total
	2003	2002	2003	2002	
	AED'000	AED'000	AED'000	AED'000	AED'000
Total operating income	<u>1,277,122</u>	<u>1,143,234</u>	<u>151,516</u>	<u>92,574</u>	<u>1,428,638</u>
					<u>1,235,808</u>
Profit before taxation	<u>531,904</u>	<u>491,991</u>	<u>67,111</u>	<u>26,438</u>	<u>599,015</u>
					<u>518,429</u>
Taxation	<u>1,669</u>	<u>(13,531)</u>	<u>-</u>	<u>-</u>	<u>1,669</u>
					<u>(13,531)</u>
Net profit for the year	<u>533,573</u>	<u>478,460</u>	<u>67,111</u>	<u>26,438</u>	<u>600,684</u>
					<u>504,898</u>
Segment Assets	<u>25,458,486</u>	<u>23,143,766</u>	<u>778,109</u>	<u>539,414</u>	<u>26,236,595</u>
					<u>23,683,180</u>
Segment Liabilities	<u>21,754,920</u>	<u>19,963,697</u>	<u>275,527</u>	<u>200,289</u>	<u>22,030,447</u>
					<u>20,163,986</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 an arm's length transaction. Difference can arise between carrying values and fair value estimates as a result of changes in market conditions.

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

The Bank has senior management committees to oversee the risk management. The Credit Policy Committee and Credit Risk Management Division set policies and system to manage and monitor credit risk. Assets & Liabilities Committee which meets on a monthly basis sets policies, system and limits for interest rate risk, foreign exchange risk and liquidity risk. The Bank also has a Risk Review function which independently reviews all risk measurement and monitoring policies. The Bank's internal audit function which is part of risk review primarily evaluates operational risk.

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.

Mashreqbank psc Group**29. Risk management (continued)****Derivatives (continued)**

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.

Derivatives held for hedging purposes

The Bank deals in derivatives including forward exchange contracts, swaps, options and futures on behalf of its customers. 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 currency risks and 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.

The following table 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, 2003

Derivative financial instruments	Positive fair value AED'000	Negative fair value AED'000	Notional 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	Over five years AED'000
Forward foreign exchange contracts	40,434	51,074	3,731,614	3,042,925	566,842	109,140	12,707
Foreign exchange options (bought)	-	6,317	1,412,716	902,797	509,919	-	-
Foreign exchange options (sold)	6,317	-	1,412,716	902,797	509,919	-	-
Interest rate swaps	124,928	125,932	1,885,075	15,647	58,254	105,269	593,829
Caps bought	-	77	327,171	-	-	-	99,171
Caps sold	77	-	327,171	-	-	-	99,171
Futures contracts purchased (customers)	807	-	23,946	20,463	3,483	-	-
Futures contracts sold (customers)	-	5,807	154,185	154,185	-	-	-
Futures contracts purchased (bank)	-	807	23,946	20,463	3,483	-	-
Futures contracts sold (bank)	5,807	-	154,185	154,185	-	-	-
Total	178,370	190,014	9,452,725	5,213,462	1,651,900	214,409	1,323,125
							1,049,829
December 31, 2002	186,624	184,914	12,386,644	9,669,470	659,292	322,111	518,440

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29. Risk management (continued)

The table below shows the details of hedged items as at December 31, 2003 and 2002 - 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
2003:						
Fixed interest rate investment/loans	1,884,071	1,885,075	Fair value	Interest rate swap	124,928	125,932
2002:						
Fixed interest rate investment/loans	1,555,513	1,557,351	Fair value	Interest rate swap	120,401	122,239

Open foreign exchange positions

Foreign exchange trading for the account of the Bank is managed by a limited foreign exchange trading limit with a stop loss limit set by Assets & Liabilities Committee.

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 Assets & Liabilities Committee (ALCO). As of December 31, 2003, the Bank's other net foreign exchange exposure was not significant except for AED 36 million long position in Qatari Riyals (2002: AED 25 million) and AED 27 million long position in Pakistani Rupees (2002: Nil).

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 re-pricing or maturity of assets and liabilities within a given period.

Mashreqbank uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity with a given change in interest rates. The results are analyzed and monitored by the Bank's Assets & Liabilities Committee (ALCO) which fixes the limit in terms of maximum expected change in net interest income within given conditions. Interest rate risk management strategies deployed by the Bank include the use of derivatives and matching asset liability re-pricing. However, the Bank has limited interest rate exposure as significant portion of its assets and liabilities are either non-sensitive to interest rate changes or have short maturity or re-pricing period (Note 24).

Liquidity risk

Liquidity Risk arises due to an institutions inability to meet its net funding commitment.

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. The Bank uses strategies to diversify funding sources, committed lines of credits and maintaining highly liquid assets to manage liquidity risk. It also uses stress testing to fix limits of liquidity ratio to ensure availability of funds when needed.

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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 Credit Risk Management 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, 2003 of AED 158.503 million (2002: AED 145.907 million).

31. Capital adequacy

		2003 AED'000	2002 AED'000
Capital base	(a)	4,020,505	3,421,159
Risk weighted assets:			
On-balance sheet assets		16,747,724	14,814,993
Off-balance sheet assets		5,120,371	4,263,635
Total risk-weighted assets	(b)	21,868,095	19,078,628
Capital adequacy ratio [(a)/(b) x 100]		18.4%	17.9%

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

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32. Sale of certain overseas branches

As part of the restructuring strategy to streamline the Bank's overseas operations, Mashreqbank ceased to operate the following branches:

a) Mashreqbank – Colombo branch (Sri Lanka)

The branch was sold to Union Bank Limited, a banking company incorporated in Pakistan, whereby Mashreqbank sold, transferred and assigned the business completely to Union Bank Limited with effect from July 1, 2003.

b) Mashreqbank – Lahore and Karachi branches (Pakistan)

With effect from August 7, 2003 the Bank transferred its investment in the Bank's Pakistan branches into a company specially formed for this purpose, in which Mashreqbank is having a minority stake of 19.6%.

c) Mashreqbank – Khartoum branch (Sudan)

With effect from October 1, 2003 the Bank entered into an amalgamation agreement with Blue Nile Bank to form the "Blue Nile Mashreg Bank", in which Mashreqbank holds a minority stake of 19.5%.

The results of the above foreign branches operations for the period from January 1, 2003 to date of disposal and for the year ended December 31, 2002 were not material to the Group as such have not been disclosed.

The net assets of the above foreign branches at the dates of disposal (AED 84.9 million) and at December 31, 2002 (AED 97.6 million) were not material to the Group. The consideration obtained resulted in a net gain on disposal of AED 7.25 million. No tax charge or credit arose from the disposal transactions.

A cumulative translation adjustment of AED 91.044 million, previously charged to equity, has been recycled to the current year's income statement as a result of the disposal of the above foreign branches.

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33. Proposed dividends

	2003 AED'000	2002 AED'000
Cash dividend of AED 2.5 per share (2002: AED 3.0 per share)	178,966	214,756
Bonus shares – 1 share for each 10 shares	71,586	-
	250,552	214,756
Dividends per share (AED)	3.5	3.0

The dividends per share for both 2003 and 2002 have been calculated based on the number of shares in issue as of December 31, 2003 following the share split [Note 16(a)].

The proposed cash and bonus share dividends shown above are subject to the approval of the Board of Directors and ratification by the shareholders at the Annual General Meeting.

34. Comparative figures

Certain amounts for the prior year were reclassified to conform to current year presentation.