





His Highness Sheikh Zayed bin Sultan Al Nahyan
President of the United Arab Emirates and Ruler of Abu Dhabi



His Highness Sheikh Maktoum bin Rashid Al Maktoum
Vice President & Prime Minister of the United Arab Emirates and Ruler of Dubai

Our Commitment

At Mashreqbank, we are proud of having nurtured a culture where customer needs and expectations guide our actions, and development of people is given the highest priority. It is this commitment which has helped us to achieve great heights in the past and will ensure our future success.

Contents

Board of Directors	2
Chairman's Report	4
Chief Executive Officer's Review	10
Worldwide Presence	22
Financial Highlights	24
Independent Auditor's Report	26
Group Financial Statements	27



Board of Directors

Chairman

Abdulla Ahmed Al Ghurair

(Pictured near right)

Deputy Chairman

Mohammed Ibrahim Obaidullah

Directors

Abdul Aziz Abdulla Al Ghurair

Ali Bin Khalifa Al Hitmi

Mohammed Ali Al Gaizi

Mohammed Abdulla Al Ghurair

Ali Rashed Ahmed Lootah

Chief Executive Officer

Abdul Aziz Abdulla Al Ghurair

(Pictured far right)

Secretary To The Board

Adel Mohamed El Mahdi

Chairman's Report

"Excellent results of the current year have provided us a solid base to pursue growth strategies in the next plan period. We are committed to add value to our customers and shareholders and, Inshallah, we will deliver it."

It is with utmost pleasure that I present this report on your Bank's performance in 2001, the first year of the new millennium. The impact of downturn of the US economy, successive interest rate cuts, oil price decline and slowdown of GDP growth in most of the industrialized nations were felt across the globe. Political events of the past few months further added to the woes of the economy. Most certainly, we in the UAE have felt the effects of these destabilizing events, although relatively speaking, the UAE economy has been somewhat insulated from the ravages of those negative forces.

Your Bank has made good progress on its well-charted path of managing risk, effectively improving quality of earnings and consolidating gains of initiatives undertaken in the past years. By implementing the strategy of selective growth of risk assets coupled with greater emphasis on fee business, revenue streams were further diversified. Productivity improvements helped to manage costs effectively without compromising on customer service and controls. The payoff for our efforts in proactively managing the Risk-Reward-Cost equation on all fronts have been more than satisfying. The net profit of the group increased by 16% to reach AED 405.7 Mln. - a commendable achievement in the current scenario.

Due to enhanced profitability and further strengthening of the balance sheet, all key performance indicators like profitability, liquidity, and capital adequacy ratios have improved. The net Interest Income improved by 4% to AED 634.5 Mln. Fee and Other Income rose by 10.7% and Gross Revenue by 6.7% to AED 1,139.8 Mln. Costs after remaining flat for three consecutive years, rose by a modest 2.8%. Efficiency Ratio

improved to 41.9% and Fee Income to Gross Income ratio remained very healthy at 44.3%. Provision for advances and others reduced by 5.3%.

Total Assets at AED 22,700 Mln. showed a modest growth. The structure of the balance sheet improved with Liquid Assets to Total Assets ratio strengthening to 48.36%. Advances to Customer Deposits ratio further improved to 64.9%. Equity to Total Assets ratio moved up to 12.4%, and Risk Weighted Assets marginally increased to reach AED 15,750 Mln.

The Earnings per share jumped from AED 48.9 to AED 56.6. Maintaining our policy of augmenting equity growth for future balance sheet growth and maintaining optimum capital adequacy, your Board has recommended a cash dividend of 30%. This dividend payout will allow a retention of profit of AED 191 Mln.

Operating Environment

As mentioned earlier, the global economic slowdown had limited impact on the UAE economy. Due to drop in oil prices, the GDP, after growing by 20% in 2000, is expected to shrink marginally (2.5%) in 2001. Though events of September 11 had visible impact on tourism, other sectors like construction, trade, services and industrial output provided the required buffer. Therefore, the non-oil sector of GDP is expected to grow at a very healthy rate of 6.6%. The Government further accelerated its efforts to diversify the economy and reduce oil sector contribution to the country's GDP. The policy of establishing value-added industry in the hydrocarbon sector continues with full force. Both upstream and downstream capital intensive projects are being undertaken. Asab Gas Development and onshore gas development projects are under different stages of implementation. Ethylene cracker plant, a part of the Borouge Petrochemical Complex came on-stream in December 2001. Gas supply to Jebel Ali from Abu Dhabi through a pipeline commenced in June, which will help to establish a broader industrial base in Jebel Ali.





Leadership
Forum

Left to Right:
Mohamed Fouz
Ali Raza Khan
Nauman Hussain
Steven Pinto
Abdul Aziz Abdulla Al Ghurair
Nabeel Waheed
Majid Husain
Irfan W. Malik
Omar Bouhadiba

Chairman's Report Continued

The construction sector remained buoyant with large projects underway. In preparation for the September 2003 meeting of the Board of Governors of the World Bank and IMF, the construction of a Convention Centre and couple of hotels in Dubai are in progress. The ambitious multi-billion dollar tourism projects of Palm Islands, Dubai Festival City and Madinat Jumeirah continue to progress well. Similarly, large projects like construction of a Convention Centre, Corniche development and relocation of the fishery harbor were announced in Abu Dhabi.

Dubai, having established itself as a major centre for conferences and exhibitions in the Middle East, got a resounding vote of confidence from the world business community. In spite of the political turmoil in the region, mega events like the International Aerospace Exhibition and Gulf Information Technology Exhibition (Gitex) were held as scheduled without any impact on attendance or business generation. Emirates Airline's orders for new aircraft amounting to over 15 billion dollars, further boosted the overall business confidence in the region.

Banking Scene

The extent and frequency of interest rate cuts by Federal Reserve during the year was unprecedented. A total of 11 rate cuts brought the federal fund rate down to 1.75%, the lowest in 40 years. The UAE Dirham interest rate also moved in tandem. In spite of such a drastic decline in interest rates, credit off-take by the private sector was marginal (1.4% in the first 6 months). The overall net domestic credit shrank by 1.1% during the same period, whereas net foreign assets of the banking sector increased by 11.41% (AED 7.4 Billion) during the first six months. Due to low interest rates, customers' interest in investment products and stock market was visible. DFM stocks rose by nearly 24% during the year. The development of capital market in debt instruments in the country had a beginning with Emirates Airlines issue of bonds, which are listed on DFM. The overwhelming

market response indicates the potential for this type of debt raising in the future. Overall, the banking and investment sector has remained stable with underlying momentum.

The UAE Central Bank further tightened its money laundering regulations. The new money laundering law was finalised and is expected to be implemented from beginning of 2002.

Looking Ahead

2002, the first year of our next 3-year strategic plan, promises to be a year of continued growth. Excellent results of the current year have provided us a solid base to pursue growth strategies in the next plan period. Notwithstanding, we realise the enormity of the challenge that lies ahead and are prepared to meet it with resolve. It is a matter of great satisfaction that our team of highly motivated professionals, which has exceptional execution capabilities that are critical for realization of our plans, is well poised to achieve a double digit growth in the coming year. Our focus will remain on growing high quality assets, diversifying sources of revenue and improving the service quality. We are committed to add value to our customers and shareholders and, Inshallah, we will deliver it.

We thank our customers for their confidence in our abilities to deliver high value. Last, but not the least, I thank the team of outstanding professionals who have made these results possible.

Thank you.

**Abdulla Ahmed Al Ghurair
Chairman**

Important Indicators	2001	2000
Advances to Total Deposits	56%	58%
Liquidity (Liquid Assets to Total Assets)	48%	47%
Equity to Total Assets	12.4%	11.6%
Return on Average Equity (Pre-tax)	16%	15%
Return on Average Equity (After-tax)	15%	14%
Return on Average Assets (Pre-tax)	1.92%	1.71%
Return on Average Assets (After-tax)	1.81%	1.67%



Chief Executive Officer's Review

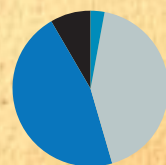
"During the year, the depth and width of the talent pool was extended by developing in-house leaders as well as adding new talent. We are proud of having built the finest team of outstanding professionals in the country and providing them an environment in which team spirit, creativity and excellence thrives."

The year 2001 has been one of the more rewarding years for Mashreqbank. We had steadfastly stayed the course on consolidating our diversified business portfolios and delivery infrastructure over the past two years as a very deliberate strategy and the payoff on this has been superior results this year – an altogether satisfying outcome for our key stakeholders. The Chairman has articulated the many imperatives of our operating environment through 2001, despite which we were able to implement a series of broad-based initiatives involving our franchise and brand, the range of products and service offerings and our organization structure. We no longer enjoy, in this age of globalization, the luxury of time and space when it comes to speed of response. We need to have inbuilt flexibility to deal with evolving situations as they occur, and more so if unanticipated. In this regard, I am pleased to report a hitherto unattained level of organizational preparedness, which we have exploited in ample measure to make the year a successful one.

We started the year on a high note by winning the Shaikh Khalifa Excellence Award, which reiterated our commitment to Excellence, and was an integral part of our business model rather than an embellishment. The Bank changed its corporate colors and logo to reflect the vibrancy of the organization through solid visual symbolism alongwith the new corporate tagline – an implicit promise to the customer. The vibrancy of the organization emanates from our people who remain our highest priority. During the year, the depth and width of the talent pool was extended by developing in-house leaders as well as adding new talent. We are proud of having built the finest team of outstanding professionals in the country and providing them an environment in which team spirit, creativity and excellence thrives.

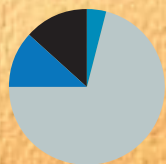
Classification of Assets

	2001	2000
Cash and Bank Balances	42.6%	41.2%
Advances	46.1%	48.9%
Investments	8.4%	7.0%
Other Assets	2.9%	2.9%



Classification of Liabilities

	2001	2000
Customer Deposits	71.0%	72.8%
Bank Deposits	11.7%	11.1%
Long Term and Other Liabilities	4.0%	3.8%
Shareholders' Funds	13.3%	12.3%



Commercial Banking

2001 was a good year for the Commercial Banking Group's domestic operations. Revenue was up by 10%, cost remained flat and risk charge dropped by 8%. This was achieved in a rather flat market with sluggish credit demand. While continuing to provide quality service to clients, priority has been to expand fee generating business and low risk products.

Through active portfolio management, the group has reduced its exposure to some of the high risk sectors in the economy while expanding further in the lower risk sectors. The increase of revenue from non risk products coupled with reduction of overall

risk weighted assets resulted in improved net post risk contribution to the Bank's bottom line and fully loaded RAROC going up by 3 percentage points.

We continued to work very closely with our clients by not only providing them the right financial solutions but also helping them to hedge their risks through various complex hedging instruments available in the international market.

After a complete strategic review of our international commercial operations, we have undertaken to restructure our network in order to better use our resources and deploy capital most efficiently. We have, as part of this exercise, reduced our local corporate exposure in the respective units. Marketing efforts are directed to book low risk business and high quality cross border deal flows in the segments of choice. Overall share of overseas branch assets in the group balance sheet reduced, so did their revenue contribution.

Retail Banking

The Retail business of the Bank has had a particularly energetic year as it has sharply focussed on key customer segments to profitably deliver a well tailored set of products and services through expanded distribution channels, with high levels of efficiency and productivity. The franchise of the Bank was significantly enhanced with the launch of a new website and a highly contemporary Internet Banking solution - mashreqonline. This new channel, which has proved popular with customers and has received accolades for its features and security elements, is making a big difference to the banking transaction habits of our customers. We also launched MashreqMobile - a mobile phone banking service using SMS messaging as a

proactive banking tool for customers. During the year, we also created a large field sales and service organization for expanded customer reach. We have a very well distributed network of ATMs and Point-Of-Sale terminals around the country giving our customers as well as those of other banks unmatched convenience. We added Utility Bill Payment services to our Phone Banking Channel which has also been expanded. All this has added immense credibility to our claim that at Mashreqbank 'the sun never sets for you'.

The entire range of products was revamped, particularly Personal Loans, MashreqMillionaire and Credit Cards, recognizing the evolving needs of our customers. The Credit Card was relaunched with the proposition - 3 Cards for the price of one, a major enhancement of the Value proposition. A new glossy magazine "VALUE" was introduced for our customers, which addressed the many lifestyle aspirations of customers. We entered the field of Investment products in response to stated customer needs for secure avenues to place money with some reasonable assured returns, in an environment of declining rates and uncertainty.

The business of Osool Finance Company now provides excellent synergistic value to the overall franchise. Osool products fill specific market niches

and wholly complement those of the Bank. In the meanwhile, we have fully integrated the back office functions - Operations and Credit of Osool with that of the Bank for much better cost efficiency and customer service. We now participate much more strongly in the Auto financing market, be it for private cars, taxis, commercial vehicles or rent-a-car companies and more meaningfully fulfill the mandate and expectation of a typical finance company, making it a valuable part of our overall franchise.

The Retail business of the Bank is a strong revenue and value contributor to the Bank. During the year, we have achieved considerable success in establishing market-oriented credit underwriting policies while stabilizing rates of delinquency and default to very acceptable levels. This has contributed handsomely to the bottom-line.

Looking ahead, we see ourselves poised for improved market shares, a further expansion of distribution capability, and an optimal approach to the Risk-Reward equation, which is the very foundation of the business.

Correspondent Banking

grow this segment of business further, but will remain selective and keep it aligned with our existing and target markets.

The strategy to utilize electronic and internet based delivery channels to offer better products and services to our customers has been very effective. The group of Trade Zone products/services now include more features and new capabilities. We also have elaborate plans for future in this regard.

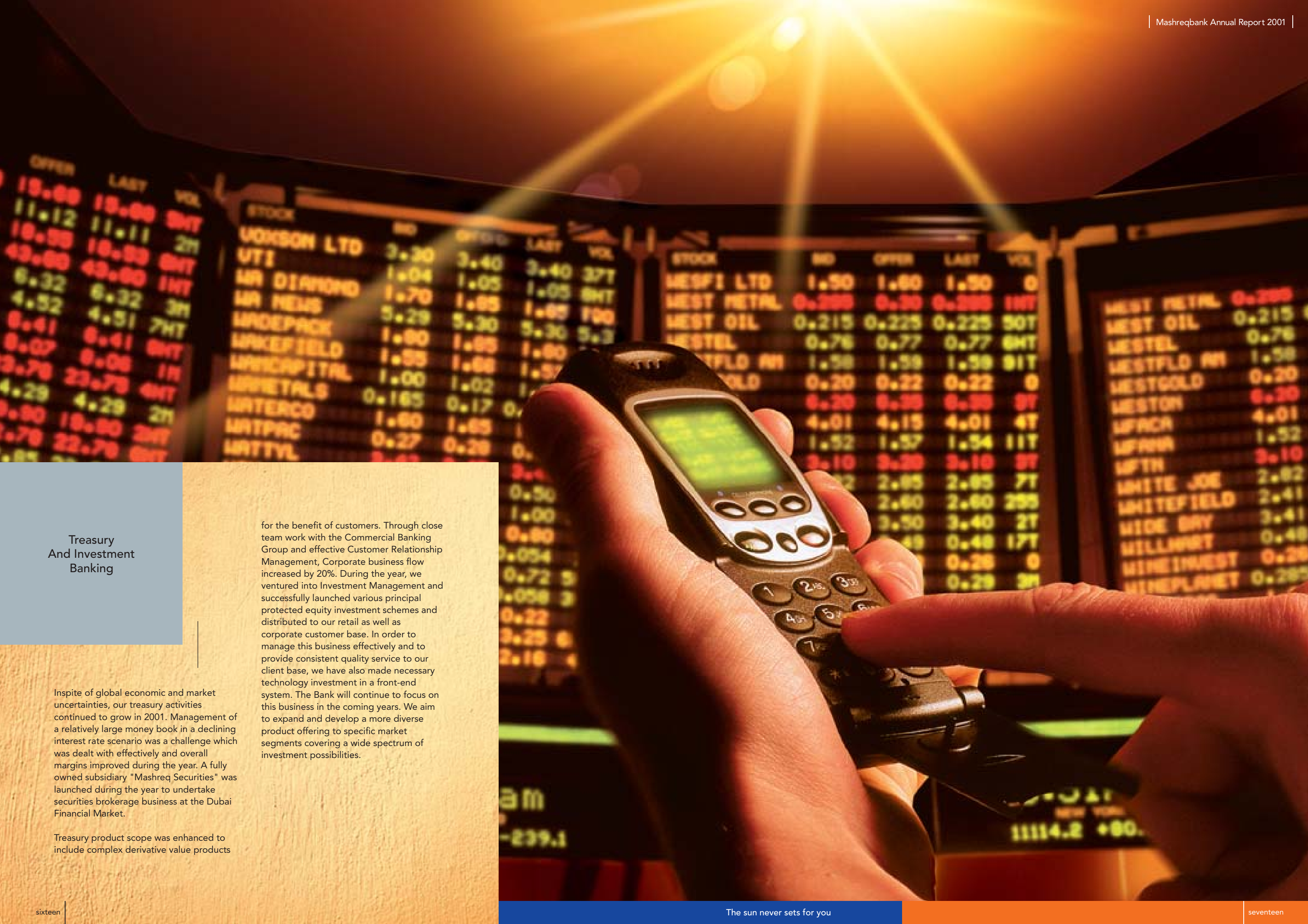
The shift from Commercial Banking to Correspondent Banking at London, New York and Hong Kong units was completed this year. The revised business strategies for these respective units are now in place. The results of these changes are expected to become obvious from the middle of next year. Our London branch, especially from a customer point of view, is expected to be the Euro clearing center and would be handling all Euro related Trade Finance and Payment requirements, besides servicing the Mashreqbank Network from January 2002.

The Correspondent Banking business will continue to be our main focus in the international arena and the basis for a global expansion strategy in this regard.

We have been successful in adjusting our business strategies in the face of significant and dramatic changes on the political and economic fronts - both at global and regional levels. We are pleased that our business targets were achieved in spite of the strict credit guidelines enforced due to the indicated factors.

Growth has been secured mainly from the existing markets and customers with the help of new and enhanced products and services. The products and services remained concentrated around Trade Finance and related payment business. Most of the business was solicited directly. A close watch was, however, kept on the syndicated opportunities, which also had contributed towards the achievements of our business goals. In future, we intend to





Treasury
And Investment
Banking

for the benefit of customers. Through close team work with the Commercial Banking Group and effective Customer Relationship Management, Corporate business flow increased by 20%. During the year, we ventured into Investment Management and successfully launched various principal protected equity investment schemes and distributed to our retail as well as corporate customer base. In order to manage this business effectively and to provide consistent quality service to our client base, we have also made necessary technology investment in a front-end system. The Bank will continue to focus on this business in the coming years. We aim to expand and develop a more diverse product offering to specific market segments covering a wide spectrum of investment possibilities.

In spite of global economic and market uncertainties, our treasury activities continued to grow in 2001. Management of a relatively large money book in a declining interest rate scenario was a challenge which was dealt with effectively and overall margins improved during the year. A fully owned subsidiary "Mashreq Securities" was launched during the year to undertake securities brokerage business at the Dubai Financial Market.

Treasury product scope was enhanced to include complex derivative value products

Risk Management

drafting critical legal documentation for securing Bank's position and providing remedial assistance has effectively enhanced its internal control capabilities.

Strict implementation of KYC regulations and adherence to the Bank's money laundering policy was ensured. Processes and systems were upgraded at various levels to ensure effective filters are in place to detect and capture suspicious transactions before they are executed.

Commercial and retail credit underwriting and monitoring capabilities were further enhanced through introduction of centralization and upgrading systems. Using statistical techniques, risk charge for each business is estimated. Actual losses are compared to expected risk charge to measure risk management effectiveness and required changes are made in the credit policy.

The Bank's Risk Management function comprising of Credit Review, Consumer Portfolio Examination, Internal Audit, Legal and Remedial Management has ensured that controls are built in all line functions and all the front line units comply with approved policies and procedures. Instilling a strong credit and control culture through an interactive approach with businesses for timely recognition of risk and duly implementing mitigating features has been and will continue to be the main objective of the Risk Management Division. Its proactive involvement at the initial stages during formulation of policies, new product initiative, risk rating of credit portfolio,

Operational Efficiency

As a strategic long term move, the Centralized Operating Units were bifurcated and aligned with respective businesses. It has improved service turnaround time for customers and brought better awareness of customer needs within operating units.

Activity Based Costing, process improvements and capacity planning tools are used to ensure higher productivity and better efficiency. It is through these initiatives we have been able to keep the cost flat for the last 4 years whereas business volume has increased substantially.

Information Technology, a major enabler in our business also played a critical role in maintaining cost, improving security and enhancing delivery capabilities. A planning module with capability of building bottom-up plans from customer level was introduced and interfaced with the Bank's data warehouse to ensure monitoring of plan. A Virtual Private Network (VPN) was implemented in the high electronic traffic international locations of London, Hong Kong and New York.

Human Resources Development

Attraction and retention of high quality professionals has been our key strategic priority. Our success belongs to the team of outstanding professionals we have built over these years. Providing a fulfilling environment in which team spirit, creativity and excellence thrives, is our commitment to them. We continued to invest in staff developmental efforts by providing best in-class training and learning opportunities. In today's knowledge society, keeping up to date with the fast paced changes in the business world is a major challenge which we have met effectively by constantly conducting technical courses, knowledge tests and leadership programs.

Recruitment and development of UAE nationals remained on top of our agenda. The Emiratisation unit of our Human Resources Division worked in close cooperation with local higher education institutions and Local Human Resources Development entities to provide exciting career opportunities to young nationals. During this year, 42 nationals joined the Bank. In order to prepare them for a fast track career, special Personal Development Plans have been devised for every national employee. Through active participation in various career fairs and work placements for students, we reaffirmed our commitment to the cause of Emiratisation.

In order to assess organizational health and seek feedback from employees, we conduct annual staff satisfaction surveys. It was very gratifying to see that this year our staff satisfaction index moved up by 7 percentage points, with an overall score that favourably compares with the best global companies.





In Conclusion

bottom-up effort by a large team of frontline managers. But in the ultimate, plans are a firm statement of intent, which become meaningful only when realized. It is our commitment to excellence and our best executional capability, I am sure, that will see this happen.

Thank you

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Every year past only serves as both a benchmark and a guidepost for the future. In this context, we are acutely aware of the high expectations of our customers and our shareholders. I believe I speak for the entire Bank when I say we are up to the challenge. In preparation, we have undertaken comprehensive work on a 3-year strategic plan for 2002-2004. Internally designated "MISSION ADDING VALUE", it aims to focus the attention and energy of the entire organization to enhance shareholder value and to better deliver incremental value to customers. This plan has been an intensive

Worldwide Presence

UAE Branches

Abu Dhabi

Zayed the 2nd Street
(Electra Street)
Tel: 6334021, Fax: 6212822

Al Khalidiya
Tel: 6665767, Fax: 6673883

Al Salam
Tel: 6786500, Fax: 6742482

Baniyas
Tel: 5823479, Fax: 5822115

Sh. Khalifa Street
Tel: 6274300, Fax: 6269550

Muroor
Tel: 4484322, Fax: 4481821

Al Mushrif
Tel: 4432424, Fax: 4431717

Al Ain

Al Ain (main)
Tel: 7661176, Fax: 7645602

Ali Ibn Abi Taleb St.
Tel: 7661178, Fax: 7668896

Ajman
Tel: 7422440/7421133
Fax: 7426690

Dubai
BurJuman
Tel: 3529355, Fax: 3522035

Hor Al Anz
Tel: 2623100, Fax: 2662887

Jumeirah
Tel: 3441600, Fax: 3429998

Khor Dubai
Tel: 3534000, Fax: 3531854

Al Khaleej Road
Tel: 2717771, Fax: 2723786

Riqa
Tel: 2229131, Fax: 223785

Al Diyafah Road
Tel: 3322890, Fax: 3312713

Souq Al Kabir
Tel: 2264176/2264178
Fax: 2266783

Jebel Ali
Tel: 8815355, Fax: 8816628

Al Awir
Tel: 3333727, Fax 3333670

Fujairah
Dibba
Tel: 2444230, Fax: 2443831

Fujairah
Tel: 2221100/2242637
Fax: 2226860

Kalba
Tel: 2777430/2778506/
2779669, Fax: 2778950

Khorfakkan
Tel: 2385295/2385259/
2386805, Fax: 2387189

Ras Al Khaimah
Al Nakheel
Tel: 2221695
Fax: 2281880

Sharjah
Al Boorj Avenue
Tel: 5351366
Fax: 5372903/5518980

King Abdul Aziz Street
Tel: 5730883,
Fax: 5745334

Dhaid
Tel: 8822114/8822899
Fax: 8822416

Umm Al Quwain
Tel: 7666949, Fax: 7664948

Overseas Branches

Africa

Egypt
Alexandria
Tel: (203) 4956850
Fax: (203) 4955511
Tlx: 54634 MSHQ UN

Cairo
Tel: (202) 5710418/
5710419
Fax: (202) 5710423
Tlx: 23386 MSHQ UN

Sudan
Khartoum
Tel: (249-11) 772881/
772840
Fax: (249-11) 772881/
772743

Tlx: 22124 MSHQ SD 22663
MSHQ SD

Asia

India
Mumbai
Tel: (91-22) 2327200
Fax: (91-22) 2301554
Tlx: 1185936 MSHQ IN

New Delhi
Tel: (91-11) 3350560
(5 Lines)
Fax: (91-11) 3357143/46
Tlx: 031-61965 MSHD IN

Pakistan
Karachi
Tel: (92-21) 5610391
(5 Lines)
Fax: (92-21) 5610830
Tlx: 20230 MSHQ PK

Lahore
Tel: (92-42) 6302063 (5
Lines)
Fax: (92-42) 6363062
Tlx: 44712 MSHQ PK

Sri Lanka
Colombo
Tel: (941) 679000 (6 Lines)
Fax: (9475) 331816
Tlx: 21466 MSHQ CE

Middle East

Bahrain
Tel: (973) 232882
Fax: (973) 213516
Tlx: 9565 MSHQ BN
9566 MSHQ BN

Qatar
Doha
Tel: (974) 4413213 (4 Lines)
Fax: (974) 4413880
Tlx: 4235 MSHQ DH

Europe

United Kingdom
London
Tel: (44-207) 201-0100 (5
Lines)
Fax: (44-207) 2595486
Tlx: 883429 MSHQ LNG

America
New York
Tel: (1-212) 5458200
Fax: (1-212) 545-0919/
545-1966
Tlx: 239881 MSHQ NY
971943 MSHQ NY

Subsidiaries U.A.E.
Dubai
Oman Insurance Co. p.s.c.
(8 Branches in UAE)
H.O. Tel: 2690700
Fax: 2690110
Tlx: 46030 OIC EM

Osool – A Finance Co.
(10 Branches In UAE)
H.O. Tel: 2737000 (8 Lines)
Fax: 7066966

Ersaal FZ-LLC
Tel: 2229131 (30 Lines)
Fax: 2226061

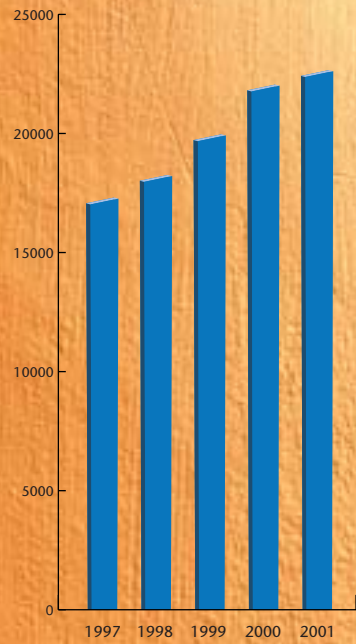
Mashreq Securities LLC
Tel: 2229131 (30 Lines)
Fax: 2226061

Hong Kong
Mashreq Asia Limited
Tel: (852) 25212938
Fax: (852) 25214289
Tlx: 63581 MSHQ HX

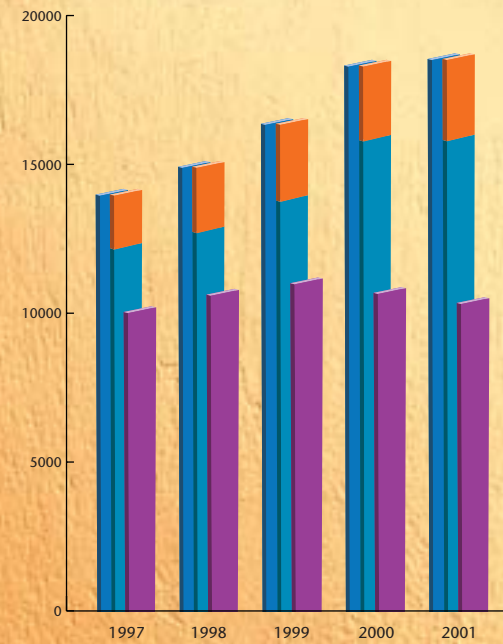
Bangladesh
Dhaka Rep. Office
Tel: 880-27115750
Fax: 880-27124195

Financial Highlights

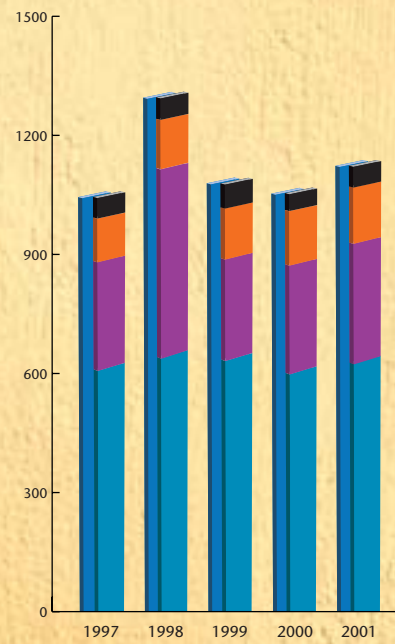
TOTAL ASSETS
(MILLION DIRHAMS)



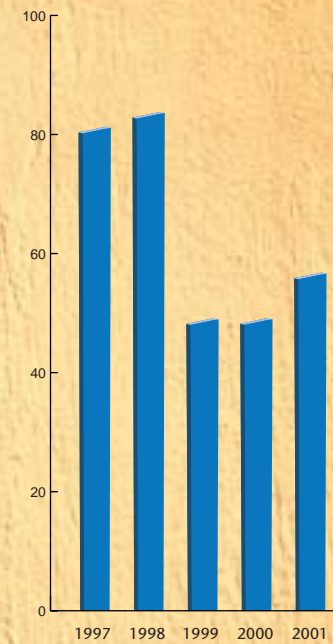
**CUSTOMER DEPOSITS
BANK DEPOSITS AND ADVANCES**
(MILLION DIRHAMS)



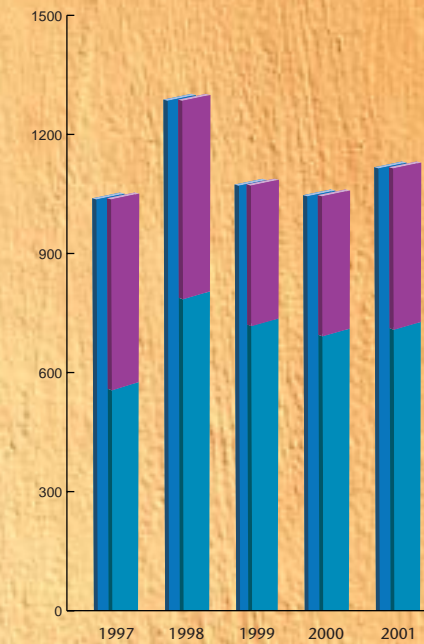
TOTAL INCOME
(MILLION DIRHAMS)



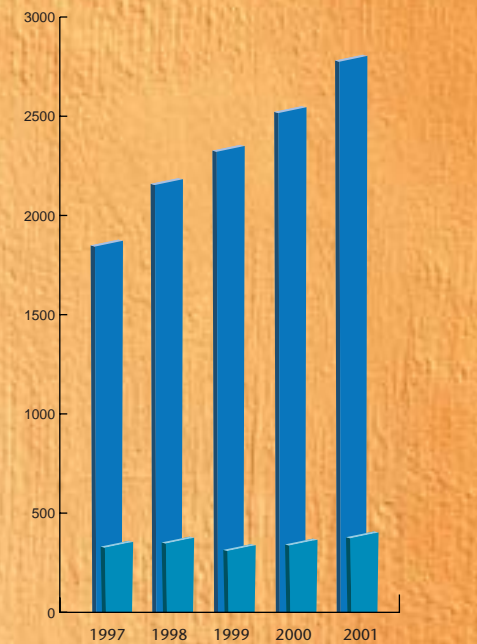
**EARNINGS PER SHARE
(AFTER TAX)**
(DIRHAMS)



**GROWTH PATTERN OF GROSS INCOME,
OPERATING COSTS AND NET PROFITS
(AFTER TAX)**
(MILLION DIRHAMS)



**SHAREHOLDERS FUNDS
AND BREAK-UP VALUE PER SHARE**



■ BANK DEPOSITS
■ CUSTOMER DEPOSITS
■ TOTAL DEPOSITS
■ ADVANCES

■ INTEREST INCOME (NET)
■ MISCELLANEOUS
■ COMMISSION (NET)
■ EXCHANGE PROFIT
■ TOTAL INCOME

■ TOTAL GROSS INCOME
■ PROVISIONS OTHER COSTS & TAX
■ NET PROFIT AFTER TAX

■ SHARE HOLDERS FUNDS (MILLION DIRHAMS)
■ BREAK-UP VALUE PER SHARE (DIRHAMS)

INDEPENDENT AUDITOR'S REPORT

The Shareholders

Mashreqbank psc

Dubai

United Arab Emirates

We have audited the accompanying consolidated balance sheet of **Mashreqbank psc Group** as of December 31, 2001 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2001 and the consolidated results of its operations and its cash flows for the year then ended in conformity with International Accounting Standards.

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

Deloitte & Touche

Dubai
January 10, 2002

Hani K. Tarazi (Reg. No.75)

CONSOLIDATED BALANCE SHEET

as at December 31

	Note	2001		2000	
		AED'000	US\$'000	AED'000	US\$'000
Assets					
Cash and balances with central banks	3	5,895,498	1,605,090	5,684,607	1,547,674
Deposits and balances due from banks	4	3,768,300	1,025,946	3,411,686	928,855
Loans and advances (net)	5	10,462,745	2,848,557	10,802,538	2,941,067
Interest receivable and other assets	6	456,215	124,208	387,195	105,416
Investments in securities	7	1,792,378	487,987	1,451,493	395,179
Investment property	8	111,767	30,429	95,992	26,135
Fixed assets	9	213,117	58,022	253,618	69,049
Total assets		22,700,020	6,180,239	22,087,129	6,013,375
Liabilities					
Deposits from customers		16,111,790	4,386,548	16,088,496	4,380,206
Deposits and balances due to banks	10	2,666,013	725,841	2,455,870	668,628
Long-term loans	11	62,904	17,126	72,495	19,737
Interest payable and other liabilities		641,247	174,583	605,754	164,921
Insurance and life assurance funds	12	77,254	21,033	73,318	19,961
Total liabilities		19,559,208	5,325,131	19,295,933	5,253,435
Minority interest	13	110,686	30,135	79,671	21,691
Shareholders' funds					
Share capital	14	715,864	194,899	715,864	194,899
Statutory and legal reserves		362,324	98,645	361,769	98,494
General reserve		312,000	84,944	312,000	84,944
Retained earnings		1,476,656	402,030	1,286,228	350,185
Cumulative translation adjustment		(121,199)	(32,997)	(121,826)	(33,168)
Cumulative changes in fair values and other reserves		69,722	18,982	-	-
		2,815,367	766,503	2,554,035	695,354
Proposed dividend		214,759	58,470	157,490	42,877
Total shareholders' funds		3,030,126	824,973	2,711,525	738,231
Total liabilities and shareholders' funds		22,700,020	6,180,239	22,087,129	6,013,375
Contra accounts (memoranda)	15	8,093,116	2,203,408	7,904,528	2,152,063

The financial statements on pages 27 to 45 were approved and signed on January 10, 2002.

Abdulla Ahmed Al Ghurair
ChairmanAbdul Aziz Abdulla Al Ghurair
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31

	Note	2001		2000	
		AED'000	US\$'000	AED'000	US\$'000
Interest income		1,404,401	382,358	1,522,309	414,459
Interest expense		(769,861)	(209,600)	(911,015)	(248,030)
Net interest income		634,540	172,758	611,294	166,429
Net commission income		135,866	36,991	129,908	35,368
Other income	16	369,394	100,570	326,421	88,870
		<u>1,139,800</u>	<u>310,319</u>	<u>1,067,623</u>	<u>290,667</u>
General and administrative expenses	17	(478,149)	(130,180)	(464,934)	(126,581)
Provisions for loans and advances, investments and others		(223,810)	(60,934)	(236,459)	(64,378)
		<u>437,841</u>	<u>119,205</u>	<u>366,230</u>	<u>99,708</u>
Income before taxes and minority interest		437,841	119,205	366,230	99,708
Income taxes		(24,088)	(6,558)	(9,539)	(2,597)
		<u>413,753</u>	<u>112,647</u>	<u>356,691</u>	<u>97,111</u>
Net income before minority interest		413,753	112,647	356,691	97,111
Minority interest		(8,011)	(2,181)	(6,187)	(1,684)
		<u>405,742</u>	<u>110,466</u>	<u>350,504</u>	<u>95,427</u>
Net income for the year		405,742	110,466	350,504	95,427
		<u><u>405,742</u></u>	<u><u>110,466</u></u>	<u><u>350,504</u></u>	<u><u>95,427</u></u>
Earnings per share		AED 56.68	US\$ 15.43	AED 48.96	US\$ 13.33
		<u><u>AED 56.68</u></u>	<u><u>US\$ 15.43</u></u>	<u><u>AED 48.96</u></u>	<u><u>US\$ 13.33</u></u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31

	Note	Share capital	Statutory and legal reserves	General reserve	Retained earnings	Proposed dividend	Cumulative translation adjustment	Cumulative changes in fair values and other reserves	Total	Total
									AED'000	AED'000
Balance at January 1, 2000		715,864	361,044	312,000	1,093,939	178,966	(126,301)	-	2,535,512	690,311
Net profit for the year		-	-	-	350,504	-	-	-	350,504	95,427
Transfer to statutory and legal reserves	14	-	725	-	(725)	-	-	-	-	-
Proposed dividend		-	-	-	(157,490)	157,490	-	-	-	-
Dividend paid		-	-	-	-	(178,966)	-	-	(178,966)	(48,725)
Overseas entities' translation adjustment		-	-	-	-	-	4,475	-	4,475	1,218
		<u>715,864</u>	<u>361,769</u>	<u>312,000</u>	<u>1,286,228</u>	<u>157,490</u>	<u>(121,826)</u>	<u>-</u>	<u>2,711,525</u>	<u>738,231</u>
Balance at December 31, 2000		715,864	361,769	312,000	1,286,228	157,490	(121,826)	-	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	14	-	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		-	-	-	-	-	-	(30,221)	(30,221)	(8,228)
		<u>715,864</u>	<u>362,324</u>	<u>312,000</u>	<u>1,476,656</u>	<u>214,759</u>	<u>(121,199)</u>	<u>69,722</u>	<u>3,030,126</u>	<u>824,973</u>
Balance at December 31, 2001		715,864	362,324	312,000	1,476,656	214,759	(121,199)	69,722	3,030,126	824,973

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31

	2001		2000	
	AED'000	US\$'000	AED'000	US\$'000
Cash flows from operating activities:				
Net income for the year	405,742	110,466	350,504	95,427
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of fixed assets	48,916	13,318	52,679	14,342
Cumulative translation adjustment, net	627	171	4,475	1,218
Provision for loan losses	205,903	56,058	239,131	65,105
Provision for decline in investments	9,304	2,533	5,111	1,392
Profit on sale of fixed assets	(1,286)	(350)	(4,809)	(1,309)
Profit on trading investment	(11,789)	(3,210)	(27,886)	(7,592)
Changes in operating assets and liabilities:				
(Increase)/decrease in deposits with central banks for regulatory purposes	(17,765)	(4,837)	135,228	36,817
Increase in deposits maturing after three months	(336,920)	(91,729)	(192,916)	(52,523)
Decrease in advances to customers	133,890	36,452	117,705	32,046
Increase in interest receivable and other assets	(69,020)	(18,791)	(57,339)	(15,611)
Increase in trading securities	(5,623)	(1,531)	(439,499)	(119,656)
Increase in customer deposits	23,294	6,342	2,006,844	546,377
Decrease in long-term loans	(9,591)	(2,611)	(7,696)	(2,095)
Increase/(decrease) in deposits and balances due to banks	210,143	57,213	(72,776)	(19,814)
Increase in insurance and life assurance funds	3,936	1,072	3,047	830
Increase in interest payable and other liabilities	35,493	9,663	2,491	678
Net cash provided by operating activities	625,254	170,229	2,114,294	575,632
Cash flows from investing activities:				
Purchase of fixed assets	(16,034)	(4,365)	(29,522)	(8,038)
Proceeds from sale of fixed assets	8,905	2,424	11,238	3,060
(Purchase)/sale of investments	(248,609)	(67,685)	206,014	56,088
Net cash (used in) provided by investing activities	(255,738)	(69,626)	187,730	51,110
Cash flows from financing activities:				
Dividend paid	(157,490)	(42,877)	(178,966)	(48,725)
Minority interest	794	216	(1,038)	(282)
Net cash used in financing activities	(156,696)	(42,661)	(180,004)	(49,007)
Increase in cash and cash equivalents (Note 19)	212,820	57,942	2,122,020	577,735

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2001

1 General

MashreqBank psc ("the Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches and subsidiaries in the United Arab Emirates, Bahrain, Egypt, Hong Kong, India, Pakistan, Qatar, Sri Lanka, Sudan, the United Kingdom and the United States of America.

The MashreqBank psc Group (the "Group"), as at December 31, 2001, includes the 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
Ersaal FZ-LLC	United Arab Emirates	99
Mashreq Securities LLC	United Arab Emirates	99

2 Significant accounting policies**(a) Accounting convention**

(i) The consolidated financial statements of MashreqBank group are prepared under the historical cost convention using International Accounting Standards and interpretations of the Standing Interpretation Committee.

(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

The Group has adopted IAS 39 "Financial Instruments: Recognition and Measurement" with effect from January 1, 2001. This has 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.

With effect from January 1, 2001, the Group adopted IAS 40, Investment Property. This has 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 has recognised 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 as "originated loans and receivable", "held to maturity", "available for sale" and "trading" remeasured 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 has 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 has accounted for the changes in accounting policies with effect from January 1, 2001 (and has not restated comparatives). Had comparatives been restated, the effect of the change in policy in relation to derivative financial instruments on the balance sheet and statement of income would not have been material. In relation to the change in policy relating to the valuation of investments and investment property, the effect of the change would have 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. This adjustment has been reflected in the statement of changes in equity. In relation to the change in policy relating to the calculation of impairment of financial assets, it is not possible reasonably to determine the amount of the adjustment that relates to prior periods.

(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 immediately in the statement of income.

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. The recognition of income ceases when the recovery of interest or principal is in doubt. Interest accruing on such advances is suspended. Commission and fee income are 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.

(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. Income and expenses are translated at average rates of exchange during the year. The Bank's investments in foreign branches and subsidiaries are translated at historical rates of exchange. The resulting differences are included under shareholders' equity as cumulative translation adjustment.

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

(g) Loans and advances

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

Provision 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

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 "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.

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; and

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.

Once a financial asset has been written down to its estimated recoverable amount, any interest income arising therefrom is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 purposes. These are initially incurred at cost comprising purchase 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 Dirham by setting off accumulated depreciation against cost.

(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 incorporated 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

	2001 AED'000	2000 AED'000
Cash	96,545	240,369
Balances with Central Banks	5,798,953	5,444,238
	<u>5,895,498</u>	<u>5,684,607</u>

In accordance with regulations, the Bank is required to maintain statutory deposits with various Central Banks on its demand, time and other deposits as calculated at the end of each month.

4 Deposits and balances due from banks

	2001 AED'000	2000 AED'000
Banks abroad	3,320,919	3,122,954
Banks in the U.A.E.	447,381	288,732
	<u>3,768,300</u>	<u>3,411,686</u>

5 Loans and advances

	2001 AED'000	2000 AED'000
(a)		
Overdraft	2,488,303	3,415,901
Loans	8,523,373	9,202,993
Credit cards	425,876	357,934
Other	176,542	138,942
	<u>11,614,094</u>	<u>13,115,770</u>
Less: Provision for credit losses	(775,567)	(1,556,764)
Less: Interest in suspense	(375,782)	(756,468)
	<u>10,462,745</u>	<u>10,802,538</u>

(b) Loans include an amount of US\$ 100 million (AED 367.3 million) which are secured by bonds held by the Bank in a fiduciary capacity.

	2001 AED'000	2000 AED'000
(c) Analysis by economic activities		
Manufacturing	1,174,253	1,322,139
Construction	1,012,506	1,172,918
Trade	2,683,704	3,046,209
Transport and communication	233,274	536,035
Services	1,206,462	1,247,743
Government	109,215	84,316
Personal	4,422,055	4,720,286
Others	772,625	986,124
	<u>11,614,094</u>	<u>13,115,770</u>
Less: Provision for credit losses	(775,567)	(1,556,764)
Less: Interest in suspense	(375,782)	(756,468)
	<u>10,462,745</u>	<u>10,802,538</u>

(d) At December 31, 2001 the fair value of collateral taken was AED 4,012 million.

(e) The Bank continues to carry classified and delinquent accounts on its books even after making 100% provision. Interest is accrued on most of those accounts for litigation purposes but is not taken to income. Such accrual has increased gross loans and advances receivable. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted. Total loans and advances, including fully provided accounts on which interest is not taken to income amounted to AED 1,285 million at December 31, 2001 (2000: AED 2,501 million). Fully provided for accounts written off during the year amounted to AED 1,629 million (2000: AED 83.2 million).

(f) The movements in loan loss provisions during the year were as follows:

	2001			2000		
	Provision for bad and doubtful debts AED'000	Interest in suspense AED'000	Total AED'000	Provision for bad and doubtful debts AED'000	Interest in suspense AED'000	Total AED'000
Balance at beginning of the year	1,556,764	756,468	2,313,232	1,387,201	591,719	1,978,920
Provided during the year	205,903	290,981	496,884	243,767	204,998	448,765
Amount written off during the year	(988,840)	(639,884)	(1,628,724)	(59,530)	(23,709)	(83,239)
Transfer from interest in suspense	12,891	(12,891)	-	5,221	(5,221)	-
Write back of provision/interest in suspense and others	(11,151)	(18,892)	(30,043)	(19,895)	(11,319)	(31,214)
Balance at end of year	<u>775,567</u>	<u>375,782</u>	<u>1,151,349</u>	<u>1,556,764</u>	<u>756,468</u>	<u>2,313,232</u>

6 Interest receivable and other assets

	2001 AED'000	2000 AED'000
Interest receivable	92,812	72,289
Prepaid interest and expenses	16,497	14,669
Inward orders for payment pending	14,876	2,498
Income taxes paid in advance	56,141	58,017
Clearing suspense	7,265	8,294
Others	268,624	231,428
	<u>456,215</u>	<u>387,195</u>

7 Investments in securities

	2001 AED '000	2000 AED '000
Trading Portfolio		
Debt securities	41,872	79,600
Equities	104,688	153,194
Discretionary managed fund	307,623	238,960
Other investments	124,915	101,721
	<u>579,098</u>	<u>573,475</u>

Available for Sale

Debt securities	289,177	258,580
Equities	440,180	402,938
Others	6,146	9,828
	<u>735,503</u>	<u>671,346</u>

Held-to-Maturity

Debt securities	477,777	235,588
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Total	1,792,378	1,480,409
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Less: Provision for diminution in value	-	28,916
	<u>1,792,378</u>	<u>1,451,493</u>

The market value of investments classified under Held-to-Maturity amounted to AED 487 million as on December 31, 2001 (2000: AED 236 million).

8 Investment property

	2001 AED'000	2000 AED'000
Interest in buildings and freehold land	111,767	113,981
Less: Provision for diminution in value	-	(17,989)
	<u>111,767</u>	<u>95,992</u>

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, 2001	483,093	154,187	38,575	165,585	124,746
Additions	16,034	594	-	7,370	8,070
Disposals/write-offs	(22,407)	(862)	(5,898)	(6,372)	(9,275)
December 31, 2001	476,720	153,919	32,677	166,583	123,541

Accumulated Depreciation

January 1, 2001	229,475	52,994	1,176	96,459	78,846
Charge for the year	48,916	4,977	71	26,347	17,521
Disposals/write-offs	(14,788)	(130)	-	(5,546)	(9,112)

December 31, 2001	263,603	57,841	1,247	117,260	87,255
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Net Book Value

December 31, 2001	213,117	96,078	31,430	49,323	36,286
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December 31, 2000	253,618	101,193	37,399	69,126	45,900
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At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 149.305 million. (2000: AED 156.351 million).

10 Deposits and balances due to banks

	2001 AED'000	2000 AED'000
Due to overseas central banks	10,456	13,279
Banks abroad	1,938,713	2,188,832
Banks in the U.A.E.	716,844	253,759
	<u>2,666,013</u>	<u>2,455,870</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.

11 Long-term loans

The Real Estate Committee of the U.A.E. has refinanced real estate loans made by the Bank to various U.A.E. citizens, which are included in advances.

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	2001 Total AED'000	2000 Total AED'000
January 1,	22,350	21,307	14,642	15,019	73,318	70,271
Increase/(decrease)	2,348	7,146	(944)	(4,614)	3,936	3,047
December 31,	24,698	28,453	13,698	10,405	77,254	73,318

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 Minority interest

	2001 AED'000	2000 AED'000
Balance as at January 1	79,671	80,709
Dividends	(7,217)	(7,225)
Cumulative adjustment in fair value	30,221	-
Share of income for the year	8,011	6,187
	110,686	79,671

14 Shareholders' funds

The authorised share capital of the bank is AED 1,500 million divided into 15,000,000 ordinary shares of AED 100 each. As of December 31, 2001, 7,158,638 ordinary shares of AED 100 each (2000: 7,158,638 ordinary shares of AED 100 each) were issued and fully paid.

In accordance with Union Law 10/80 of the U.A.E., 10% of the net 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.

15. Contra accounts and commitments

(a) The maturity structure for the Bank's commitments and contingencies were as follows:

	2001				
	1-3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	4,252,594	1,403,549	473,512	50,768	6,180,423
Letters of credit	939,760	508,229	14,279	6	1,462,274
Acceptances	335,241	110,472	4,706	-	450,419
Total	5,527,595	2,022,250	492,497	50,774	8,093,116

	2000				
	1-3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	4,237,882	1,096,570	339,981	3,735	5,678,168
Letters of credit	1,270,482	435,408	9,895	6	1,715,791
Acceptances	413,384	96,360	825	-	510,569
Total	5,921,748	1,628,338	350,701	3,741	7,904,528

15. Contra accounts and commitments (continued)

	2001 AED'000	2000 AED'000
(b) Commitments		
Uncalled capital on investments held	5,842	5,842
16 Other income		
	2001 AED'000	2000 AED'000
Fees, bank charges and other	207,069	184,616
Foreign exchange gains	50,488	40,668
Insurance underwriting profit	34,779	21,900
Investment securities	72,440	74,023
Net rental income	4,618	5,214
	369,394	326,421
17 General and administrative expenses		
	2001 AED'000	2000 AED'000
Salaries and employee related expenses	288,493	273,150
Occupancy cost	31,012	31,247
Depreciation	48,915	52,679
Other general and administration expenses	109,729	107,858
	478,149	464,934

General and administrative expenses include AED 45.2 million (2000: AED 43.2 million) incentive bonus to employees and executive officers of the Group.

The number of employees of the Group was 1,758 as of December 31, 2001 (2,020 as of December 31, 2000).

18 Foreign restricted assets

Net assets equivalent to AED 112.6 million as of December 31, 2001 (2000: AED 130.9 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.

19 Cash and cash equivalents

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

(i)	2001 AED'000	2000 AED'000
Cash on hand, current accounts and deposits with central banks and deposits with central banks in the U.A.E.	5,895,498	5,684,607
Banks in the U.A.E.	447,381	288,732
Banks abroad	3,320,919	3,122,954
	9,663,798	9,096,293
Less: Deposits with central banks for regulatory purposes	(417,813)	(400,048)
Less: Deposits maturing after 3 months	(740,460)	(403,540)
	8,505,525 (a)	8,292,705 (b)
Change in cash and cash equivalents – 2001 [(a) – (b)]		212,820

19 Cash and cash equivalents (continued)

(ii)	2000	1999
	AED '000	AED'000
Cash on hand, current accounts and Deposits with central bank	5,684,607	2,210,412
Banks in the UAE	288,732	479,042
Banks abroad	3,122,954	4,227,131
	<u>9,096,293</u>	<u>6,916,585</u>
Less: deposits with central banks for regulatory purposes	(400,048)	(535,276)
Less: Deposits maturing after 3 months	(403,540)	(210,624)
	<u>8,292,705 (a)</u>	<u>6,170,685 (b)</u>
Change in cash and cash equivalents – 2000 [(a) –(b)]		<u>2,122,020</u>

20 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:

	2001	2000
	AED'000	AED'000
Advances to customers	<u>286,287</u>	<u>418,077</u>
Deposits from customers	<u>570,605</u>	<u>923,116</u>
Letters of credit, guarantees and acceptances	<u>636,639</u>	<u>521,291</u>
Net income for the year includes related party transaction as follows:		
Interest income	<u>24,294</u>	<u>41,507</u>
Interest expense	<u>22,257</u>	<u>62,851</u>
Other income	<u>15,870</u>	<u>17,195</u>

21 Interest rate sensitivity – 2001

	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	3,481,369	1,700,000	-	-	714,129	5,895,498
Deposits and balances due from banks	3,074,535	143,974	85,773	382,575	81,443	3,768,300
Advances to customers less provisions	5,927,537	1,051,505	660,625	2,410,825	412,253	10,462,745
Interest receivable and other assets	266	-	-	-	455,949	456,215
Investments in securities	622,336	231,103	73,620	191,368	673,951	1,792,378
Investment properties	-	-	-	-	111,767	111,767
Fixed assets	-	-	-	-	213,117	213,117
Total assets	<u>13,106,043</u>	<u>3,126,582</u>	<u>820,018</u>	<u>2,984,768</u>	<u>2,662,609</u>	<u>22,700,020</u>
Liabilities and shareholders' funds						
Deposits from customers	8,542,762	2,304,242	1,635,917	404,658	3,224,211	16,111,790
Deposits and balances due to banks	2,445,683	63,881	-	-	156,449	2,666,013
Long term loans	-	-	-	-	62,904	62,904
Interest payable and other liabilities	-	-	-	-	641,247	641,247
Insurance and life assurance funds	-	-	-	-	77,254	77,254
Minority interest	-	-	-	-	110,686	110,686
Proposed dividend	-	-	-	-	214,759	214,759
Shareholders' funds	-	-	-	-	2,815,367	2,815,367
Total liabilities and shareholders' funds	<u>10,988,445</u>	<u>2,368,123</u>	<u>1,635,917</u>	<u>404,658</u>	<u>7,302,877</u>	<u>22,700,020</u>
On Balance Sheet gap	2,117,598	758,459	(815,899)	2,580,110	(4,640,268)	-
Off Balance Sheet gap	37,087	430,463	(10,822)	(456,728)	-	-
Cumulative interest rate sensitivity gap - 2001	<u>2,154,685</u>	<u>3,343,607</u>	<u>2,516,886</u>	<u>4,640,268</u>	<u>-</u>	<u>-</u>
Cumulative interest rate sensitivity gap - 2000	<u>2,909,825</u>	<u>2,450,416</u>	<u>1,538,694</u>	<u>4,191,087</u>	<u>-</u>	<u>-</u>

Effective interest rate on bank placements and certificates of deposits with central bank was 4.7% (2000: 6.3%), on loans and advances 9.4% (2000: 10.4%), on customer deposits 4.2% (2000: 5.6%) and on bank borrowings 4% (2000: 4.9%).

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

22 Maturities of Assets and Liabilities - 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
Assets					
Cash and balances with central banks	4,150,545	1,700,000	-	44,953	5,895,498
Deposits and balances due from banks	3,027,840	60,752	216,049	463,659	3,768,300
Advances to customers less provisions	5,362,209	927,730	886,792	3,286,014	10,462,745
Interest receivable and other assets	160,437	293,348	2,278	152	456,215
Investments in securities	622,336	49,781	776,759	343,502	1,792,378
Investment properties	-	-	-	111,767	111,767
Fixed assets	9,177	8,834	15,969	179,137	213,117
Total assets	13,332,544	3,040,445	1,897,847	4,429,184	22,700,020
Liabilities and shareholders' funds					
Deposits from customers	11,757,824	2,309,210	1,636,000	408,756	16,111,790
Deposits and balances due to banks	2,234,831	63,882	-	367,300	2,666,013
Long term loans	-	-	-	62,904	62,904
Interest payable and other liabilities	479,489	29,879	117,442	14,437	641,247
Insurance and life assurance funds	-	-	-	77,254	77,254
Minority interest	-	-	-	110,686	110,686
Proposed dividend	214,759	-	-	-	214,759
Shareholders' funds	-	-	-	2,815,367	2,815,367
Total liabilities and shareholders' funds	14,686,903	2,402,971	1,753,442	3,856,704	22,700,020
Maturity profile 2000:					
Assets – 2000	14,715,048	1,974,350	1,066,389	4,331,342	22,087,129
Liabilities - 2000	15,147,133	2,021,868	1,692,822	3,225,306	22,087,129

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.

23. Concentrations of Assets, Liabilities and Off Balance Sheet Items

Geographic regions	2001			2000		
	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000
Middle East	18,278,906	20,730,625	7,790,453	17,233,637	19,595,040	7,499,763
O.E.C.D.	2,647,909	482,097	180,177	3,013,475	970,347	178,508
Others	1,773,205	1,487,298	122,486	1,840,017	1,521,742	226,257
Total	22,700,020	22,700,020	8,093,116	22,087,129	22,087,129	7,904,528
Industry Sector						
	Assets AED'000	2001 Liabilities AED'000	Off Balance Sheet items AED'000	Assets AED'000	2000 Liabilities AED'000	Off Balance Sheet items AED'000
Commercial & Business	5,972,367	5,890,918	6,701,773	6,952,246	5,969,521	6,270,177
Personal	3,918,283	7,689,006	37,303	3,545,060	7,205,865	32,743
Financial institutions	10,886,718	3,515,400	1,334,425	9,751,269	3,887,480	1,528,194
Others	1,922,652	5,604,696	19,615	1,838,554	5,024,263	73,414
Total	22,700,020	22,700,020	8,093,116	22,087,129	22,087,129	7,904,528

24. Segmental Information

	Banking		Insurance		Total	
	2001 AED'000	2000 AED'000	2001 AED'000	2000 AED'000	2001 AED'000	2000 AED'000
Total operating income	1,063,543	1,002,294	76,257	65,329	1,139,800	1,067,623
Profit before taxation	415,613	346,581	14,217	13,462	429,830	360,043
Income tax expenses	24,088	9,539	-	-	24,088	9,539
Net profit for the year	391,525	337,042	14,217	13,462	405,742	350,504
Segment Assets	22,227,220	21,695,827	472,800	391,302	22,700,020	22,087,129
Segment Liabilities	19,400,073	19,107,110	159,135	188,823	19,559,208	19,295,933

25 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.

26 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 individually negotiated interest rate futures that 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 has adopted a comprehensive 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 within the guidelines issued by UAE Central Bank. 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 specifically identified fixed 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.

December 31, 2001

Off-balance sheet 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	One year to five years AED'000	Over five years AED'000
Forward foreign exchange contracts	30,807	29,357	8,483,200	6,364,065	1,447,318	586,329	85,488	-
Foreign exchange options (bought)	2,134	-	144,343	132,855	11,488	-	-	-
Foreign exchange options (sold)	-	2,135	144,343	132,855	11,488	-	-	-
Interest rate swaps	34,719	34,226	467,550	-	-	10,822	401,633	55,095
Futures contracts purchased (customers)	-	136	21,527	21,527	-	-	-	-
Futures contracts sold (customers)	166	-	54,762	54,762	-	-	-	-
Futures contracts purchased (bank)	-	166	54,762	-	-	-	-	-
Futures contracts sold (bank)	136	-	21,527	21,527	-	-	-	-
Total	67,962	66,020	9,392,014	6,782,353	1,470,294	597,151	487,121	55,095

26 Risk management (continued)

The table below shows the details of hedged items as at December 31, 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
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, 2001, the Bank's other net foreign exchange exposure was not significant except for AED 43 million long position in Omani Riyals and AED NIL in Qatari Riyals (2000: AED 149 million in Omani Riyals and AED 74 million in Qatari Riyals in long position).

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.

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 Division and Central Credit Committee in accordance with the Bank's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank further limits risk through diversification of its assets by geography and industry sector limits.

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

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

27 Fiduciary activities

The Bank holds assets in a fiduciary capacity for a related party as of December 31, 2001 amounting to AED 85.066 million (2000: AED 46.562 million).

The underlying assets held in a fiduciary capacity are excluded from the consolidated financial statements of the Group.

28 Capital adequacy

		2001 AED'000	2000 AED'000
Capital base	(a)	3,085,844	2,791,196
Risk weighted assets:			
On-balance sheet assets		12,163,022	12,027,990
Off-balance sheet assets		3,587,684	3,475,580
Total risk-weighted assets	(b)	15,750,706	15,503,570
Capital adequacy ratio [(a)/(b) x 100]		19.6%	18.0%

29 Comparative financial information

Certain amounts related to 2000 have been reclassified in order to make them comparable with the 2001 presentation, except as stated in Note 2 (iv).