Mashreqbank Annual Report 2003

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

We are committed to putting our customers at the centre of all we do.

We will serve their financial needs by providing Unique Value in every solution.

Ours will be an exciting and rewarding place to work in, generating in turn Added Value for our shareholders and the community at large.

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Mashreqbank psc Established in 1967
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Board of Directors

Chairman
Mr. Abdulla Bin Ahmed Al Ghurair

Vice-Chairman
Mr. Ali Rashid Ahmed Loutah

Director & Chief Executive Officer
Mr. Abdul Aziz Abdulla Al Ghurair

Directors
Mr. Abdul Aziz Hussain Salatt
Mr. Abdulla Nasser Bin Huwaillel
Mr. Mohammed Abdulla Al Ghurair
Mr. Abdulla Mohamed Ibrahim Obaid-Ullah

Chairman's Report

I am pleased to announce that in 2003 Mashreqbank Group has produced the most gratifying results ever, exceeding our plans and most optimistic expectations. We have now completed the second of a three-year strategic plan which was particularly challenging. It is satisfying for us to see that we are on track to see us finish ahead in every dimension.

During the year, our focus remained on optimizing the risk-reward equation, providing unique value propositions consistently across the product spectrum and offering the most optimal solutions to our target customers. The strategy of offering products and services through alternative delivery channels according to choice and convenience of customers helped to improve customer satisfaction, manage distribution costs and improve productivity. Favorable business climate in the markets of our operations further boosted our efforts to achieve healthy growth.

Financial Performance

As always, our endeavor has been to ensure stable and predictable earnings, and the year 2003 is no exception. During the year, Group Operating Income as compared to 2002 went up by 15.6% to reach AED1.428 Billion. All components of operating income have contributed to this growth. The Net Interest Income has grown by 11% whereas Net Commission Income went up by 13% and Other Income, to which the Insurance business contributed handsomely, went up by 24%. This significant growth across the revenue streams is the result of our strategy to diversify risk and continuously innovate and re-invent our business.

The Total Assets reached a new height of AED26.2 Billion. Loans and Advances grew by 17%. Customer Deposits grew by 12.3%, thus resulting in Advances to Customer Deposits ratio of 78.5% against 75.3% of last year.

Growth in Non-Interest Income continued to exceed Net Interest Income, hence, Non-Interest Income to Operating Income ratio jumped from 45.4% to 47.55%. Effective expenses management resulted in a modest growth of 4% in Operating Expenses and improvement in Efficiency Ratio from 40% to 36%.

Diversification and management of risk being a critical success factor had the highest focus during the year. Efforts in this direction were duly rewarded by reduction in credit cost by AED17 Million (i.e. 8%) and improvement in Provisions to Income Ratio from 16.6% to 13.1% whereas coverage for Non-Performing Loans through Provisions reached 117%. Disposal of operations in Sri Lanka, Pakistan and Sudan done as part of long-term strategy yielded marginal gain but also necessitated reversal of cumulative translation adjustment from Equity to the Income statement to the tune of AED91 Million. This reversal represents decline in value of investments over a period of time due to exchange fluctuations.

The Net Profit registered a robust growth of 19% and reached AED 600.6 Million. Earnings per share improved from AED 7.05 to AED 8.39. Return on Average Assets improved from 2.18% to 2.4% and Return on Average Equity (excluding cash dividends) remained at a healthy 17%. Capital Adequacy ratio improved to over 18%.

Keeping in view the future growth and our objectives of maintaining higher than mandatory capital adequacy ratio, your board has decided to recommend a total distribution of 35% in the form of a cash dividend of 25% (against 30% last year) and issuance of bonus shares at 10% i.e. 1 share for each 10 held (against nil last year.)

UAE Economy

As mentioned above, the year 2003 was rather an exciting year for GCC economies. Inspite of political turmoil in Iraq, the GCC region remained on a fast track and witnessed one of the fastest rates of growth in GDP in recent history. Thus the combined GDP is expected to reach US$360 billion. The UAE and the State of Qatar stand out among the six nation council as high growth economies. The UAE GDP is projected to reach AED 273 billion, a growth of 4.4%. Although imports have reached an all time high of AED 151 billion, current account surplus is expected to remain at around AED 31 Billion. Public spending in UAE in 2003 also touched a mark of AED 100 billion widening the budget deficit to AED 31 billion which will be more than covered by Investment Income of the government. Population also continued to grow unabated and is estimated to reach 4 million at the end of 2003, a growth rate of over 6.6% as compared to 7.6% last year.

Besides oil, the major contributing activities to the thriving economy are construction, tourism, real estate, manufacturing and services. The successful hosting of the IMF meeting in September 2003 placed UAE on the world map and enhanced its prestige as highly efficient organisers of mega events. Inspite of war clouds in the region, passenger traffic at Dubai airport was up by 15%. The development of luxury housing and tourism projects in Dubai created huge inflow of investors and tourists. The ambitious projects like Dubai Land, Mall of the Emirates and Dubai Mall etc. will cause an outlay of billions of dollars in the next few years keeping the economy humming.

The government of Abu Dhabi has announced ambitious plans to stimulate economy by building an industrial base that will diversify the Emirates economy and attract foreign investment. The government plans to develop 5 industrial zones which are expected to attract in excess of US$ 10 billion in investments. Construction of a new Oil and Gas City at a cost of US$ 540 million is being planned. This new city will be home for hundreds of oil services' companies in the region. Heavy investment in the hydrocarbon sector for downstream and upstream integration will continue.

The Financial services sector being a mirror of the economic health of the country exhibited strong buoyancy. Private domestic liquidity in the first six months went up by AED 10 billion, i.e. 5.8% over the same period last year; claims of private sectors went up by AED 8.7 billion, i.e. 6.1%. The domestic Capital market surged unabated and registered a growth of 45% during the year. Turnover in domestic equity markets was also up significantly. Abu Dhabi Securities market witnessed a growth of 176% in trading value.

Overall 2003 was a year of growth, expansion and optimism for the UAE economy and for those institutions which were ready to capture the opportunities as they arose.

Looking forward

The economic outlook for the coming year is bright. With the right mix of products and services and our committed team, I am confident that we can deliver yet another superior performance in 2004. We will continue to build our infrastructure, leverage the cutting edge technology already in place, introduce innovative products and services and manage risk effectively. We have an ambitious plan for 2004 and we are all ready to make it happen and to the benefit of our stakeholders.

Before I close, I would like to thank the Chief Executive Officer and his able team for their efforts and dedication in achieving these inspiring results. I would also like to thank our customers, the Central Bank and the Government for their continued support.

Thank you,

Abdulla Bin Ahmed Al Ghurair
Chairman

Important Indicators	2003	2002
Advances to Total Deposits	70%	65%
Liquidity (Liquid Assets to Total Assets)	38%	42%
Equity to Total Assets	15.2%	14.3%
Return on Average Equity (Pre-tax)	16.3%	16.2%
Return on Average Equity (After-tax)	16.3%	15.8%
Return on Average Assets (Pre-tax)	2.40%	2.24%
Return on Average Assets (After-tax)	2.41%	2.18%

Chief Executive Officer's Review

The year 2003 has been an exceptional year for Mashreqbank group. During the year we achieved superb financial performance, received international recognition for professional excellence and accomplished our strategic business goals. Financial results of 2003 were shaped by strategic decisions taken during the last 2-3 years, similarly, this year's strategic positioning will ensure continuous growth for the coming years.

Mashreqbank's leadership position in the UAE had been recognized time and again through a number of accolades and acclaims received locally and internationally. In 2003 it was again reinforced by the prestigious Euromoney magazine by bestowing on Mashreqbank "Best Bank in the UAE" award, the third time in the last 8 years. The Banker magazine of Financial Times Group also recognized Mashreqbank as "Best Bank of the Year" in the UAE. These awards are a recognition of our efforts in providing our customers a superior value proposition. Our consistent, strong financial results and growing strength of the balance sheet helped us to get an upgrade from Moody's rating agency in Foreign Currency Deposit Rating to A3, and Financial Strength Rating to C-.

To maintain our competitive position in the market, during the year we continued to upgrade our infrastructure and invested in the latest technology solutions, improved our delivery capability and introduced innovative retail, commercial and treasury products to meet the growing needs of our customers.

Retail Banking

The Retail Banking Group has had another exciting and rewarding year with all three entities that constitute this Business Group i.e. the UAE Retail Bank, Osool Finance and Qatar Retail Bank turning in excellent performances in line with a three-year growth plan adopted in 2002. Satisfying Customers Profitably is how the Retail business defines its goal and all indicators in 2003 suggest to continuing success in this mission.

We were major sponsors for the Dubai Shopping Festival in 2003 as part of our continuing efforts to meaningfully participate in Community activities. We were provided an opportunity under the DSF umbrella, to showcase some of our products with special consumer promotions and offers which we did in the most creative fashion.

The MashreqMillionaire program, which has grown tremendously since its inception eight years back, has now assumed a brand defining status. A recognition of its market power came in the form of an award of "Brand of the Decade" from GMR - the Gulf's leading marketing journal.

"Our All Things for All People" strategy has seen us expand some of our core offerings and enter new business activities. We have gained great credibility in the retail Investments area, and during the year, we had a number of new structured offerings for customers looking for higher returns at low to no risk. We entered the field of Islamic financing with an Islamic Car Loan designated Osool Murabaha Auto

Loan, and also marketed for the first time an Islamic Fund. Rapid acceptance by customers, serves as an encouraging sign for us to seek further expansion. The Dubai property market has been sizzling through the year, with more than AED 40 billion worth of apartments, town-houses, and villas made available for nationals and expats alike. Mortgage Finance is one of the most important and sizeable components of retail bank portfolios around the world. We have become the first bank in the UAE market offering mortgage finance at very special terms in association with the major developers like EMAAR, Al Nakheel, Palm and Jumeirah Residences.

We were the first Credit Card issuers in the country and continue to be front-runners in the innovation game. As with everything else, we consistently build our consumer propositions around VALUE and this has been so with Credit Cards as well. We are the largest acquirers in the country of card spend volume through a network of over 7000 merchants who use Mashreqbank terminals. At significant investment, we have converted all terminals to microchip enabled functionality, this as a prelude to introducing Chip Cards. Chip Cards provide immense customer beneficial program capability and also sharply reduce if not eliminate fraud risk.

We have fully committed ourselves to 24x7 distribution capabilities in the interest of our customers, in the clear belief that they must be able to access their account with the Bank through one channel or another, all day, all week, all year. We have also on an experimental basis opened two new customer service centres in shopping malls in Sharjah and Dubai. These are open 12 hours a day and utilize cash depository as well as dispensing machines for round-the-clock service. We have the largest offsite and onsite ATM network in the country. Our internet and SMS banking channels are now used by over 30% of customers. Our customers can also now receive their account statements at their email address as frequently as they choose - a great convenience. Truly The Sun Never Sets at Mashreqbank.

The Osool Finance Co. now serves key market segments that complement the services of the Bank. And the business is making a solid contribution to the bottom-line. The franchise in Qatar has gone from strength to strength. We have added one more branch to the existing two and hope to further expand.

We are implementing an end-to-end Credit and Collection automated system which will considerably enhance decision-making and information management in this critical area.

Commercial Banking

The focus in 2003 has been on a balanced growth for our traditional businesses while putting strong emphasis on new business lines.

Trade finance and contracting finance, our two traditional areas of expertise have continued to generate solid growth helped by the strong fundamentals of the UAE economy. It has been our deliberate strategy to upgrade our position with our main clients by improving our service quality, expanding their usage of our product offering, and adding value to their businesses. Our determined efforts to constantly


EUROMONEY
AWARDS FOR EXCELLENCE
2003
Mashreqbank
Best bank in the
United Arab Emirates


The Banker
awards
2003
Mashreqbank
UAE

review our business practices and listen to our clients in order to provide them with the best possible service have handsomely paid off, resulting in a rapidly growing share of our key client relationships' business. Simultaneously, our new product lines such as Wealth Management, Business Finance, Cash Management and Structured Finance have proven very successful resulting in double and sometimes triple digit growth. They have become, in a remarkably short time frame, significant contributors to our operation giving us the added benefit of revenue diversification. Overall, both our top line as well as our bottom line have witnessed significant growth.

We have maintained our strong focus on credit risk management. Through extensive diligence and competent relationship management, we have further improved our portfolio quality, bringing down our risk charge for the third consecutive year. Better risk management, careful client selection, extension of product lines and focus on the revenue helped to improve Commercial Banking contribution by 22% during 2003, whereas growth in Commercial Banking assets was only 16%.

As mentioned last year, we aggressively worked on our strategy to close overseas Commercial Banking operations and focused our energies to the GCC market only. During the year, we disposed off Pakistan, Sri Lanka and Sudan operations and closed our Alexandria branch. The Cairo branch is still operational but no new business is being booked there. Indian branches had stopped corporate banking business sometime back, and during the year it was decided to convert Indian operations exclusively for correspondent banking business only.

Treasury and Capital Markets

Treasury and Capital Markets had an enterprising 2003, participating in the success of the bank by expanding its array of financial services and seamlessly delivering innovative solutions to meet client requirements across platforms. The exponential growth of derivative market has provided complex hedging tools and techniques to business. We use our market knowledge and expertise to help our customers buy these products to hedge themselves from volatile market movements.

In 2003 the bank has successfully launched more than 65 principal protected offerings covering multiple asset classes for the wholesale and retail franchise. Going forward, the bank intends to expand its coverage of investment products which are expected to focus on domestic, regional, as well as global markets across the Islamic and conventional domain. The activity will also steer the Bank into asset management and the launch of regional and global investment funds.

The bank's investment products offerings have been backed by investment in technology together with emphasis on the training of the sales force. Both are geared towards providing investors with the information required, in order to make sound investment decisions in current markets.

Our focus and strategy for the coming year evolves around our client base and we look to add regional presence into our array of product offerings. We remain committed to the development of the domestic capital market by being a prime broker in the UAE stock markets.

Correspondent Banking

The correspondent banking business has maintained its fast track growth through introduction of new products, customized product offerings, expanded target markets, and availability of the new online products/services. Our correspondent banking business, in addition to risk participation and trade finance, focuses on trade services and related cash management and payment activities and provides settlement services through its book transfer system.

The Payments and Trade Finance systems have been beefed up in New York and London resulting in improved product offerings. The online services which presently are available only to our New York and London based customers are planned to be extended to accounts at other correspondent banking units. A web based LC advising system "Asia Link" has been introduced in our Hong Kong subsidiary, to develop correspondent banking business in China/Far East. We have implemented a system in New York to automate monitoring of transactions/accounts for anti-money laundering and enhanced due diligence.

During the year we have opened a Representative Office in Pakistan, while we already have one in Bangladesh. We have obtained approval to convert our subsidiary (a Deposit Taking Company) in Hong Kong into a Bank branch. The transition will take place in the first quarter of 2004. In a new initiative, we have established alliance with Mizuho Corporate Bank to market and offer financial services to UAE based Japanese customers. The bank's Indian operation, where the corporate business was stopped some time ago, will focus on cashing in on the opportunity in the correspondent banking business in the region.

With further automation and system upgrades coupled with the planned launch of new products like cash letter/guaranteed product, CLS, etc. and back-office process re-engineering, we expect this business to maintain its position as a major player in this market and also contribute further to the bank's bottom-line.

Non-Banking subsidiaries

Mashreqbank's Insurance subsidiary had a very successful year. General and Life business grew significantly improving insurance income by 66%. Oman Insurance remains a leader in the field of general insurance and medical insurance in the country. They have partnered with Mashreqbank to develop bancassurance products to meet customer needs. The prudent management of Investments helped to improve investment income by 59% during the year.

Our technology subsidiary Mindscape Information Technology (MIT) is established in Dubai Internet City. In addition to managing Mashreqbank's complete IT needs, Mindscape is actively operating as a specialized Systems Integrator focused in executing complex business and technical consulting projects within Financial Services sector in Middle East. Mindscape has entered into strategic partnership with Oracle Corporation offering value-add systems integration capabilities on their ERP and CRM solutions. It has also entered into an alliance with Hyundai Information Technology in Asia Pacific to implement World Bank funded IT solutions for various Central banks in the region. Few of Mindscape's highly prestigious projects include developing of Infrastructure and an Enterprise Wide Data Warehousing solution being deployed in State Bank of Pakistan and Bank of Sudan respectively.

Risk Management

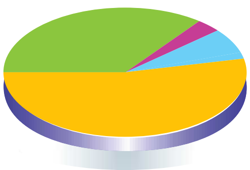
At Mashreqbank, risk management functions and limit approval processes are independent of business line management. Credit risk is managed using bankwide policies and standards for portfolio diversification and capital allocation, underwriting, response time to clients, and risk measurement.

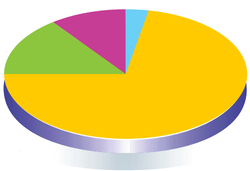
During the year under review, significant progress was made in terms of completely overhauling credit policies, approval processes, metrics for risk recognition, new product approvals, and problem asset management. The Bank complies with IAS 39 and the Central Bank guidelines in terms of the treatment of impaired assets and provisioning. Our overall portfolio quality is robust and asset growth is being managed in a controlled manner.

Commercial credit risk management comprises an assessment of borrower's/counterparty's risk profile, analysis of its financial condition in conjunction with current industry /economic trends, approving appropriate credit structures and limits and post-approval administration. Each commercial credit exposure is assigned a risk rating and is subject to independent credit approval based on risk rating, collateral, single name concentration while balancing the value of the total client relationship. Credit exposures are monitored continuously for possible adjustments based on the quality of the portfolio.

Credit risk management for consumer credit occurs throughout a borrower's credit cycle. Statistical techniques are used to establish risk appetite, product pricing, operating processes, collections and metrics to balance risk and reward appropriately. Independent credit risk management is responsible for establishing overall credit policy, approving product-specific policies and programmes, managing business risk management performance, providing ongoing assessment of portfolio risks and approving new products. The end-to-end management of the retail credit cycle is being considerably strengthened through installation of a world-class system.

Classification of Assets/Liabilities - December 31	2003	2002
Assets		
Cash and Bank Balances	28.2%	32.3%
Advances	56.2%	53.1%
Investments	12.9%	11.7%
Other Assets	2.7%	2.9%
Liabilities		
Customer Deposits	71.5%	70.6%
Bank Deposits	8.7%	10.7%
Long term and other liabilities	4.6%	4.4%
Shareholders' Equity	15.2%	14.3%






العمليات المصرفية عبر الإنترنت
Internet Banking

Risk Review at Mashreqbank comprises Corporate Credit Portfolio Review, Consumer Loan Examination, Operations Audit, and Compliance. It is fully independent of the business and provides assurance to the Board of Directors, CEO and Senior Management regarding the condition of the Bank from a risk-perspective on a periodical basis.

Risk Review not only undertakes to pre-empt, monitor, help resolve issues relating to composite risks as they arise across the risk spectrum in the banking business, but also, with specialist resources available to it, is in a position to analyse risk in all its dimensions from end to end. Its independence and its unique vantage point allow proactive participation in highlighting risks and providing suggested options for mitigation. The diversity and complexity of the risks, from the traditional credit risk and market risk through to operational risk, that affect the business are actively monitored/analysed as the business evolves.

The Compliance function has been reorganised and strengthened with experienced staff. Every location and business unit has a compliance functionary who coordinates with the Head of Compliance on all related issues. Technology solutions to monitor account movements are introduced and daily exceptional reporting framework ensures close monitoring by Compliance Head.

Technology

Information Technology played an important role in the success of the bank.

We have implemented a Retail Collection and Recovery system which supports the management of delinquent accounts. We have acquired a best-in-class application processing system that will help streamline the account set up and loans applications processing, faster decision-making and quick turn around time as far as customer is concerned. Bank has also invested in a state-of-the art EMV (Euro Master Visa) chip compliant cards personalization system and is in the process of implementing a system for handling card loyalty programs. We have also identified a web based Enterprise Document Management System as a vital tool to improve efficiency of information handling. System enhancements were accomplished to support the Anti Money Laundering initiatives. Capability to provide e-statements to customers is in place and will be launched soon. The Treasury and Investment Products Systems have also been upgraded to meet the increased complexities in the business and bring in flexibility.

Leveraging our data warehousing capability, we have introduced a web based system to monitor retail business on a daily basis and established a Bankwide Exposure Reporting System.

All desk tops were replaced with the latest operating system bringing more security and functionality. Most of the peripheral systems and the ERP systems have been upgraded to latest versions in order to enhance efficiency and leverage the enhanced functionalities.

Talent Management

Highly skilled and dedicated employees have been the major strength of Mashreqbank. Today's knowledged worker has multiple needs and attraction and retention of talent is a challenge unless these needs are well understood and met by employers. Our mission to make Mashreqbank an exciting and rewarding place to work in reflects our commitment to meet their aspirations and tap their creative energy. The organization culture fosters innovation, learning and customer focus. We take pride in being a learning organization and provide our staff opportunity for self-development.

Our dedicated learning and development centre organized 211 high quality programs through which 3252 candidates were trained representing 4142 mandays of training. All employees in customer interaction related jobs in the branches were offered a Certification program to develop core knowledge and skill requirements of the job. A comprehensive plan was designed to disseminate 'New Credit Policy' through structured training and diagnostic assessment. These learning initiatives have not only prepared staff to perform their jobs effectively but have also enhanced their professional knowledge.

As a responsible corporate citizen, Mashreqbank appreciates and supports the federal government's mandate of employing UAE Nationals. During the year, we recruited 117 Nationals, the majority of which were fresh and raw talent who will be provided extensive classroom and on-the-job training to bring them up quickly on the learning curve.

We have clearly articulated and executed a strategy that provides employment on a preferential basis to UAE Nationals and develops them towards taking up jobs in various divisions of the bank. As an attempt to attract the National workforce we have introduced many unique employment and training initiatives over the year, such as, a half-day work program aimed specifically at the college students and an on-the-job program for academically high performing students.

Measurement of Staff Satisfaction and taking steps to further enhance it is an important process for the bank. This process was taken to another level with the introduction of the Engagement Model which measures how involved and engaged the staff are to meeting the objectives of the organization and prioritizes areas for action.

Conclusion

As I look back on 2003, I find it greatly satisfying that all businesses, i.e. Commercial Banking, Retail Banking, Treasury and Capital Markets, Correspondent Banking and the Insurance Business have grown their revenue and net contribution during the year and thus contributed well to the success of the Group. This outstanding success is due to team work and dedicated efforts of highly talented human capital we have at Mashreqbank. The plans for the next year have been drawn with the same enthusiasm and foresight and we are committed to deliver a similarly strong performance next year.

Thank you.

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Worldwide Presence

UAE Branches

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Fax: 02-4481821

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Fax: 02-6341939

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Fax: 03-7645602

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Al Aweer
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Fax: 04-3333670

Al Diyafah
Tel: 04-3312645
Fax: 04-3312713

Al Khaleej
Tel: 04-2717771
Fax: 04-2723786

Burjuman
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Fax: 04-3522035

Hor Al Anz
Tel: 04-2623100
Fax: 04-2662887

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Fax: 06-5745334

Dhaid
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Fujairah
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Fax: 09-2226860

Dibba
Tel: 09-2444230
Fax: 09-2443831

Kalba
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Fax: 09-2778950

Khorfakkan
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Fax: 09-2387189

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Subsidiaries

UAE
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Fax: 2690110
Tlx: 46030 OIC EM

Osool - A Finance Co.
(10 Branches in UAE)
H.O. Tel: 2737000 (8 lines)
Fax: 7066966

Mindscape Information
Technology LLC
Tel: 04-2714333
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Mashreq Securities LLC
Tel: 2223333 (30 lines)
Fax: 2226061

Hongkong
Mashreq Asia Limited
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Representative Offices

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Pakistan
Karachi Rep. Office
Tel: (92-21) 5656830/32
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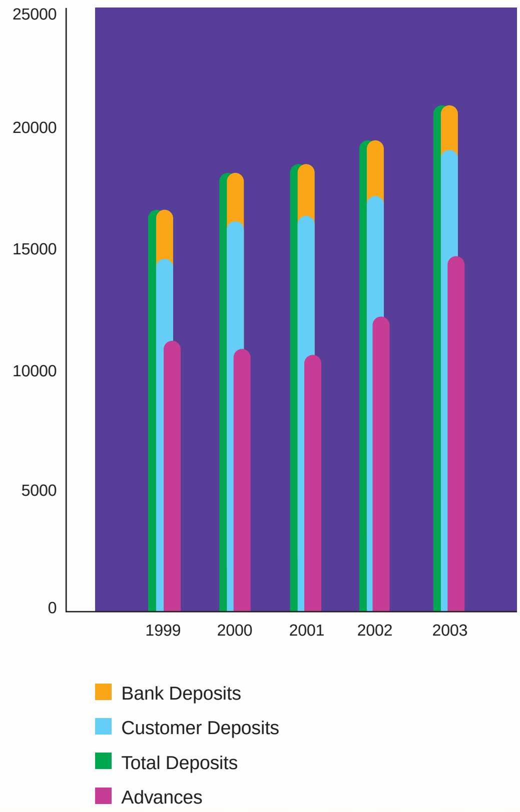
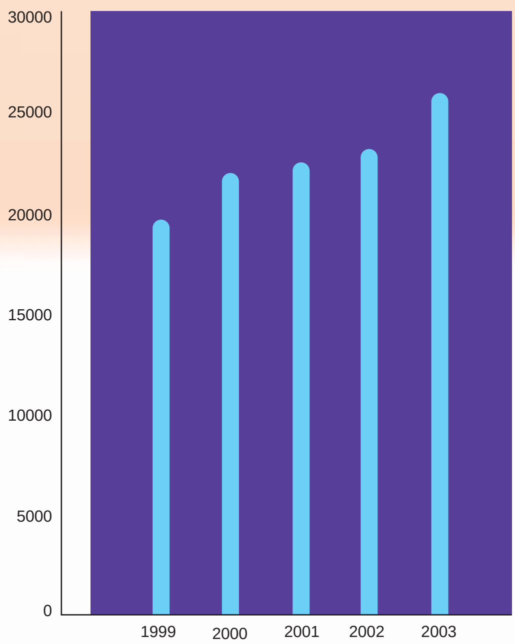
Financial Highlights

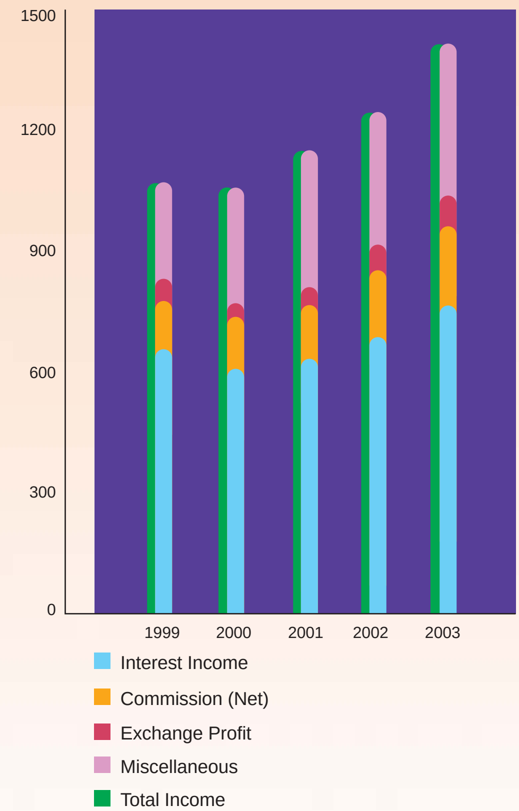
Customer Deposits/Bank Deposits and Advances
(Million Dirhams)



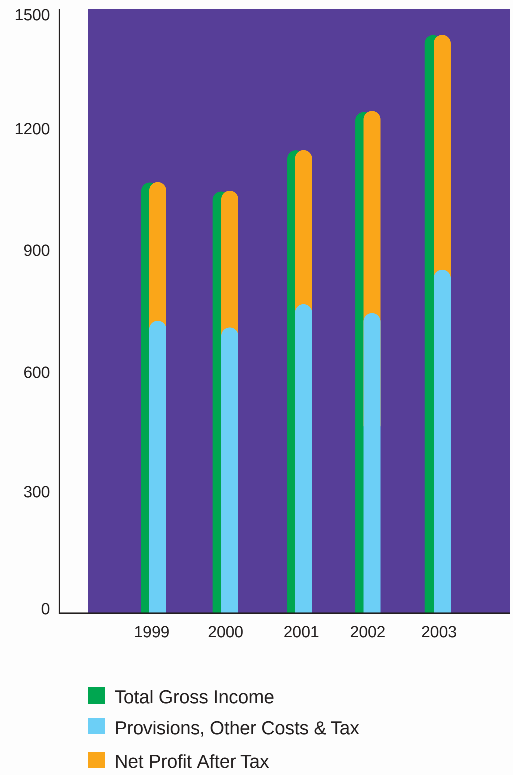
Total Assets
Million Dirhams



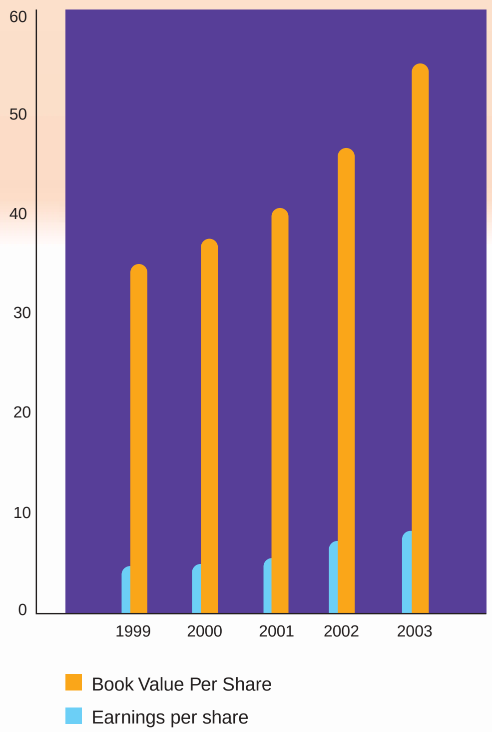
Total Income Composition
(Million Dirhams)



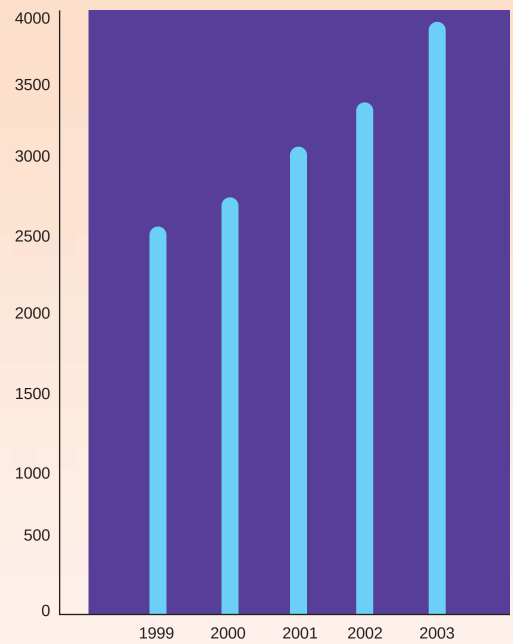
Growth Pattern of Gross Income, Operating Costs & Net Profits, After Tax
(Million Dirhams)



Earnings Per Share (After Tax) and Book value per share
(Dirhams)



Shareholders' Equity
(Million Dirhams)



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.

Deloitte & Touche

Dubai
January 12, 2004

Alfred Strolla (Reg. No. 137)

CONSOLIDATED BALANCE SHEET

as at December 31

		2003		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 21 to 41 were approved by the Board of Directors and signed on January 12, 2004.

Abdulla Bin Ahmed Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

for the year ended December 31

	Note	2003 AED'000	2003 US$'000 Equivalent	2002 AED'000	2002 US$'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.

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)	(58,470)
Overseas entities' translation adjustment		-	-	-	1,812	-	-	-	-	1,812	493
Minority interest in cumulative change in fair values	15	-	-	-	-	(20,665)	-	-	-	(20,665)	(5,626)
Balance at December 31, 2002		**715,864**	**366,770**	**312,000**	**(119,387)**	**127,365**	**1,762,349**	**214,759**	**-**	**3,379,720**	**920,152**
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**	**-**	**-**	**-**	**-**	**95,763**	**26,072**
Minority interest in cumulative change in fair values	**15**	**-**	**-**	**-**	**-**	**(46,789)**	**-**	**-**	**-**	**(46,789)**	**(12,738)**
Cumulative adjustment in fair values of investment properties		**-**	**-**	**-**	**-**	**(13,877)**	**13,877**	**-**	**-**	**-**	**-**
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.

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.

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 Mashreg 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).

(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 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.

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.

(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

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.

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:-

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

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

(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.

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
	2,483,731	3,079,178

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
	4,905,185	4,563,578

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
	15,405,654	13,919,855
Less: Allowance for impairment	**(667,024)**	(1,337,845)
	14,738,630	12,582,010

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").

	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).

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

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
	1,414,955	1,402,235
Available for sale		
Debt securities	**428,508**	437,845
Equities	**726,185**	516,928
Others	**6,709**	23,094
	1,161,402	977,867
Held to maturity		
Debt securities	**682,399**	280,814
Total	**3,258,756**	2,660,916

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
	140,942	112,099

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).

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
	18,763,290	16,713,671

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
	2,285,995	2,529,103

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,	**34,103**	**64,917**	**18,747**	**11,406**	**129,173**	97,273

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

13 Long-term loans

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
	800,311	766,874

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
	216,606	139,474

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.

(b) Statutory and legal reserves

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

(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 accounts and commitments (a + b + c)	**20,176,039**	21,840,444

(d) Contra accounts - maturity profile

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

2003

	Within 3 months AED'000	**Over 3 to 6 months AED'000**	**Over 6 to 12 months AED'000**	**Over 1 year AED'000**	**Total AED'000**
Guarantees	**4,703,862**	**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

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
Guarantees	4,936,460	482,935	611,342	336,856	6,367,593
Letters of credit	1,455,076	380,381	367,834	97,192	2,300,483
Acceptances	592,828	140,302	22,280	24,472	779,882
Total	6,984,364	1,003,618	1,001,456	458,520	9,447,958

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
	488,053	391,894

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
	518,634	497,190

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)	**600,684**	504,898
Number of ordinary shares outstanding	**71,586,380**	71,586,380
Earnings per share (AED)	**8.39**	7.05

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

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
	7,388,916	7,642,756
Less: Deposits with central banks for regulatory purposes	**(563,094)**	(476,326)
Less: Deposits maturing after 3 months	**(853,092)**	(1,259,563)
	5,972,730 (a)	5,906,867 (b)
Increase in cash and cash equivalents - 2003 [(a) - (b)]	**65,863**	

(ii)	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
	7,642,756	9,592,782
Less: Deposits with central banks for regulatory purposes	(476,326)	(417,813)
Less: Deposits maturing after 3 months	(1,259,563)	(740,460)
	5,906,867 (a)	8,434,509 (b)
Decrease in cash and cash equivalents - 2002 [(a) - (b)]	(2,527,642)	

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

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	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central 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.

25 Maturities of Assets and Liabilities - 2003

	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	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' equity	**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.

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

27 Segmental information

	Banking		Insurance		Total	
	2003 AED'000	2002 AED'000	**2003 AED'000**	2002 AED'000	**2003 AED'000**	2002 AED'000
Total operating income	**1,277,122**	1,143,234	**151,516**	92,574	**1,428,638**	1,235,808
Profit before taxation	**531,904**	491,991	**67,111**	26,438	**599,015**	518,429
Taxation	**1,669**	(13,531)	-	-	**1,669**	(13,531)
Net profit for the year	**533,573**	478,460	**67,111**	26,438	**600,684**	504,898
Segment Assets	**25,458,486**	23,143,766	**778,109**	539,414	**26,236,595**	23,683,180
Segment Liabilities	**21,754,920**	19,963,697	**275,527**	200,289	**22,030,447**	20,163,986

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.

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.

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	One year to five years 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	1,112,076	593,829
Caps bought	-	77	327,171	-	-	-	99,171	228,000
Caps sold	77	-	327,171	-	-	-	99,171	228,000
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	1,217,331	518,440

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.

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.

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.

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.