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Mashreqbank psc Group

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2007**

Mashreqbank psc Group

Consolidated Financial Statements and Independent Auditor's Report For the Year Ended December 31, 2007

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Independent Auditor's Report

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mashreqbank psc ("the Bank") and Subsidiaries (collectively "the Group") (a Public Shareholding Company), which comprise the consolidated balance sheet as of December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Cont'd...

Audit . Tax . Consulting . Financial Advisory .

Member of
Deloitte Touche Tohmatsu

Deloitte

Independent Auditor's Report to the Shareholders of Mashreqbank psc, Dubai, United Arab Emirates - continued (page 2 of 2)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of the United Arab Emirates requirements.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of accounts. 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 during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Bank's Articles of Association which might have materially affected the financial position of the Bank or its financial performance.

Deloitte & Touche



Anis Sadek (Reg. No. 521)

Dubai
January 22, 2008

Mashreqbank psc Group
Consolidated Balance Sheet as of

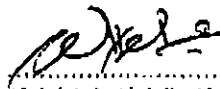
		December 31, 2007		December 31, 2006	
	Note	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Assets					
Cash and balances with central banks	5	20,200,123	5,499,625	2,405,688	654,965
Deposits and balances due from banks	6	7,959,847	2,167,124	8,556,912	2,329,679
Trading investments	7	10,023,141	2,728,870	10,094,456	2,748,286
Loans and advances (net)	8	35,994,974	9,799,885	28,572,233	7,778,991
Islamic financing and investment products	9	2,345,269	638,516	829,014	225,705
Non-trading investments	7	4,749,018	1,292,953	2,840,993	773,480
Interest receivable and other assets	10	5,472,924	1,490,042	2,781,805	757,366
Investment property	11	498,440	135,704	361,739	98,486
Property and equipment	12	383,661	104,454	302,275	82,296
Total assets		87,627,397	23,857,173	56,745,115	15,449,254
Liabilities					
Deposits and balances due to banks	13	13,397,024	3,647,434	5,702,538	1,552,556
Repurchase agreements with banks	14	3,834,313	1,043,919	1,285,612	350,017
Customers' deposits	15	46,133,514	12,560,173	33,908,235	9,231,755
Islamic customers' deposits		2,153,198	586,223	747,890	203,618
Insurance and life assurance funds	16	516,895	140,728	373,940	101,807
Interest payable and other liabilities	17	5,857,323	1,594,696	3,356,871	913,931
Medium-term floating rate notes	18	5,234,025	1,425,000	3,397,525	925,000
Long-term loans	19	16,707	4,549	23,541	6,409
Total liabilities		77,142,999	21,002,722	48,796,152	13,285,093
Equity					
Capital and reserves					
Share capital	20(a)	1,126,054	306,576	866,195	235,828
Statutory and legal reserves	20(b)	599,009	163,085	469,453	127,812
General reserve	20(c)	312,000	84,944	312,000	84,944
Cumulative translation adjustment		(2,155)	(587)	(11,449)	(3,117)
Investments revaluation reserve		510,578	139,009	184,220	50,155
Retained earnings		7,068,366	1,924,412	5,557,149	1,512,973
Equity attributable to equity holders of the parent		9,613,852	2,617,439	7,377,568	2,008,595
Minority Interest	21	870,546	237,012	571,393	155,560
Total equity		10,484,398	2,854,451	7,948,963	2,164,161
Total liabilities and equity		87,627,397	23,857,173	56,745,115	15,449,254

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

The financial statements on pages 3 to 72 were approved by the Board of Directors and signed on its behalf by:



Abdullah Ahmed Al Ghurair
 Chairman



Abdul Aziz Abdulla Al Ghurair
 Chief Executive Officer

Mashreqbank psc Group
Consolidated Income Statement
for the year ended

	Note	December 31, 2007		December 31, 2006	
		AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Interest income	23	3,949,981	1,075,410	2,642,553	719,454
Income from Islamic financing and investment products	24	<u>81,508</u>	<u>22,191</u>	<u>32,052</u>	<u>8,726</u>
Total interest income and income from Islamic financing and investment products		4,031,489	1,097,601	2,674,605	728,180
Interest expense	25	(2,788,349)	(759,148)	(1,763,923)	(480,240)
Distributions to depositors – Islamic products	26	<u>(42,682)</u>	<u>(11,620)</u>	<u>(28,505)</u>	<u>(7,761)</u>
Net interest income and income from Islamic products net of distributions to depositors		<u>1,200,458</u>	<u>326,833</u>	<u>882,177</u>	<u>240,179</u>
Fee and commission income	27	2,804,829	763,634	1,625,457	442,542
Fee and commission expense	27	<u>(1,713,625)</u>	<u>(466,546)</u>	<u>(918,034)</u>	<u>(249,941)</u>
Net fee and commission income		<u>1,091,204</u>	<u>297,088</u>	<u>707,423</u>	<u>192,601</u>
Net investment income	28	873,759	237,887	768,407	209,204
Other income	29	<u>685,065</u>	<u>186,515</u>	<u>469,431</u>	<u>127,806</u>
Operating income		3,850,486	1,048,323	2,827,438	769,790
General and administrative expenses	30	(1,409,787)	(383,824)	(1,031,470)	(280,825)
Allowances for loans and advances and other financial assets	31	<u>(308,385)</u>	<u>(83,960)</u>	<u>(146,604)</u>	<u>(39,914)</u>
Income before taxes		2,132,314	580,539	1,649,364	449,051
Overseas income tax expense		<u>(6,319)</u>	<u>(1,720)</u>	<u>(6,622)</u>	<u>(1,803)</u>
Net income for the year		<u>2,125,995</u>	<u>578,819</u>	<u>1,642,742</u>	<u>447,248</u>
Attributed to:					
Equity holders of the parent		1,900,632	517,461	1,570,640	427,618
Minority interest	21	<u>225,363</u>	<u>61,358</u>	<u>72,102</u>	<u>19,630</u>
		<u>2,125,995</u>	<u>578,819</u>	<u>1,642,742</u>	<u>447,248</u>
Earnings per share	32	<u>AED 16.88</u>	<u>US\$ 4.60</u>	<u>AED 13.95</u>	<u>US\$ 3.80</u>

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

Mashreqbank psc Group

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Consolidated Statement of Changes in Equity
for the year ended December 31, 2007

	Share capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total AED'000
At December 31, 2005	866,195	468,839	312,000	(16,005)	1,467,347	4,160,362	7,258,732	896,087	8,154,819
Changes in fair value of investments during the year	-	-	-	-	(1,283,121)	-	(1,283,121)	(352,849)	(1,635,970)
Overseas entities' translation adjustment	-	-	-	4,556	-	-	4,556	1	4,557
Total income/(expenses) recognised directly in equity	-	-	-	4,556	(1,283,121)	-	(1,278,565)	(352,848)	(1,631,413)
Net income for the year	-	-	-	-	-	1,570,640	1,570,640	72,102	1,642,742
Total income for the year	-	-	-	4,556	(1,283,121)	1,570,640	292,075	(280,746)	11,329
Transfer to statutory and legal reserves	-	614	-	-	-	(614)	-	-	-
Dividend paid	-	-	-	-	-	(173,239)	(173,239)	(35,441)	(208,680)
Share of minority in newly formed subsidiaries	-	-	-	-	-	-	-	1,500	1,500
Reduction in minorities' share capital	-	-	-	-	-	-	-	(10,005)	(10,005)
At December 31, 2006	866,195	469,453	312,000	(11,449)	184,210	5,557,149	7,377,568	571,395	7,948,963
Changes in fair value of investments during the year	-	-	-	-	326,358	-	326,358	149,521	475,879
Overseas entities' translation adjustment	-	-	-	9,294	-	-	9,294	31	9,325
Total income recognised directly in equity	-	-	-	9,294	326,358	-	335,652	149,552	485,204
Net income for the year	-	-	-	-	-	1,900,632	1,900,632	225,363	2,125,995
Total income for the year	-	-	-	9,294	326,358	1,900,632	2,236,284	374,915	2,611,199
Transfer to statutory and legal reserves	-	129,556	-	-	-	(129,556)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(31,011)	(31,011)
Bonus shares issued	259,859	-	-	-	-	(259,859)	-	-	-
Reduction in minorities' share capital	-	-	-	-	-	-	-	(44,753)	(44,753)
At December 31, 2007	1,126,054	599,009	312,000	(2,155)	510,578	7,068,366	9,613,852	870,546	10,484,398

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

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

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>AED'000</u>	<u>US\$'000</u> Equivalent	<u>AED'000</u>	<u>US\$'000</u> Equivalent
Cash flows from operating activities				
Net income for the year	2,125,995	578,819	1,642,742	447,248
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	67,400	18,350	53,949	14,687
Fair value adjustment – trading investments	(136)	(37)	(63,283)	(17,229)
Translation adjustment for the year	9,294	2,530	4,556	1,240
Allowance for impairment of loans and advances	193,536	52,691	83,124	22,631
Fair value adjustment – property investment	(152,732)	(41,583)	(64,157)	(17,467)
Loss/(gain) on sale of property and equipment	67	18	(327)	(89)
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	(417,507)	(113,669)	(217,136)	(59,117)
Increase in bank deposits maturing after three months	(1,830,958)	(498,491)	(623,716)	(169,811)
Increase in customers' loans and advances	(7,616,277)	(2,073,585)	(6,385,928)	(1,738,614)
Increase in Islamic financing and investing products	(1,516,255)	(412,811)	(829,014)	(225,705)
Increase in interest receivable and other assets	(2,691,119)	(732,676)	(730,622)	(198,916)
Decrease/(increase) in trading investments - net	71,451	19,453	(3,163,929)	(861,402)
Increase in repurchase agreements with banks	2,548,701	693,901	918,312	250,017
Increase in customers' deposits	12,225,279	3,328,418	3,903,443	1,062,740
Increase in Islamic customer deposits	1,405,308	382,605	747,890	203,618
Increase in medium-term floating rate notes	1,836,500	500,000	1,101,900	300,000
Decrease in long-term loans	(6,834)	(1,861)	(7,124)	(1,939)
Increase in deposits and balances due to banks	7,694,486	2,094,878	2,569,607	699,593
Increase in insurance and life assurance funds	142,955	38,920	113,492	30,899
Increase in interest payable and other liabilities	2,500,452	680,765	703,349	191,492
Net cash provided by/(used in) operating activities	16,589,606	4,516,635	(242,872)	(66,124)
Cash flows from investing activities				
Purchase of property and equipment	(149,880)	(40,806)	(162,807)	(44,325)
Proceeds from sale of property and equipment	1,027	279	737	201
Purchase of non-trading investments, net	(1,416,115)	(385,547)	(327,550)	(89,172)
Net cash used in investing activities	(1,564,968)	(426,074)	(489,626)	(133,303)
Cash flows from financing activities				
Dividend paid to shareholders	-	-	(173,239)	(47,166)
Dividend paid to minority	(31,011)	(8,443)	(35,441)	(9,649)
Net capital withdrawn by minority	(44,722)	(12,176)	(8,504)	(2,315)
Net cash used in financing activities	(75,733)	(20,619)	(217,184)	(59,130)
Increase/(decrease) in cash and cash equivalents (Note 34)	14,948,905	4,069,942	(949,682)	(258,557)

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

**Notes to Consolidated Financial Statements
for the year ended December 31, 2007**

1. General information

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 in the United Arab Emirates, Bahrain, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

At December 31, 2007, Mashreqbank psc Group (the "Group") comprises the Bank and its subsidiaries as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Oxool - a Finance Company (PJSC)	United Arab Emirates	98	98	Finance company.
Oman Insurance Company (PSC)	United Arab Emirates	63.65	63.65	Insurance company.
Mindscape Information Technology L.L.C.	United Arab Emirates	99	99	Software/Application provider.
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage.
Injaz Services FZ LLC	United Arab Emirates	100	100	Service provider.
Al-Badr Islamic Finance (PJSC)	United Arab Emirates	99.70	99.70	Islamic finance company.
Mashreq Capital (DIFC) Limited	United Arab Emirates	100	100	Brokerage, asset management & fund management.
Al Yamama Services FZ LLC	United Arab Emirates	100	100	Service provider.
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Managing funds.
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Managing funds.
Makaseb Funds Company BSC III	Kingdom of Bahrain	99.90	99.90	Managing funds.
Roya Executive Ltd.	British Virgin Islands	*	100	General activities.
Bracebridge Limited	British Virgin Islands	*	100	General activities.
Oriston Limited	British Virgin Islands	*	100	General activities.

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of 100% control.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosure* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1: *Presentation of Financial Statements*.

The impact of adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (Note 40). Four Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current year. These are: IFRIC 7: *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8: *Scope of IFRS 2*; IFRIC 9: *Reassessment of Embedded Derivatives*; and IFRIC 10: *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 23	IAS 23 (Revised) <i>Borrowing Costs</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 8	<i>Operating Segments</i> (effective January 1, 2009) IFRS 8 replaces IAS 14 <i>Segment Reporting</i> . It extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.
IFRIC 11	IFRS-2: <i>Group Treasury Shares Transactions</i> (effective for periods beginning March 1, 2007).
IFRIC 12	<i>Service Concession Arrangements</i> (effective for periods beginning January 1, 2008).
IFRIC 13	<i>Customer Loyalty Programmes</i> (effective for periods beginning July 1, 2008)
IFRIC 14	<i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> (effective for periods beginning January 1, 2008)

3. Significant accounting policies

(a) Statement of compliance

- (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) and Central Bank of the U.A.E. requirements as relates to the measurement and classification of properties acquired in settlement of debts and impairment of loans and advances.

(ii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mashreqbank psc and entities controlled by the bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant intra-group transactions, balances, income and expenses are eliminated.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Derivative financial instruments and hedge accounting

The Group uses 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) to hedge the related associated risk.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, 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.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise.

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 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.

Fair value hedge

Gains and losses from re-measuring derivatives, which meet the criteria for fair value hedge accounting, to their fair value are recognized in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3. Significant accounting policies (continued)**(b) Derivative financial instruments and hedge accounting (continued)*****Cash flow hedge***

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 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.

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 equity is transferred to the income statement for the year.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in the income statement.

(c) Revenue recognition

Interest income and expense are recognized on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest income and expense include the amortization of discount or premium using the effective interest rate method. When there is doubt in the collection of the principal or the interest, 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.

Dividend revenue from investments is recognized when the Group's right to receive payment has been established.

Mashreqbank psc Group

3. Significant accounting policies (continued)

(c) Revenue recognition (continued)

Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the income statement when incurred.

(d) Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in U.A.E Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

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 Balance Sheet, Income Statement and Statement of Cash Flow and certain notes to the financial statements using a conversion rate of US\$ 1.00 = AED 3.673.

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.

Assets and liabilities of foreign branches are translated into U.A.E. Dirham at the rates of exchange ruling at year end. 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.

3. Significant accounting policies (continued)**(e) Impairment of tangible and intangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) 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.

3. Significant accounting policies (continued)

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	<u>Years</u>
Group buildings	20 - 25
Office equipment (including computers) and vehicles	3 - 5
Furniture, fixtures and computer mainframe hardware	6 - 7
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

(h) Financial assets

Investments are recognised and derecognised on the settlement date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and advances'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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3. Significant accounting policies (continued)

(h) Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 40.

3. Significant accounting policies (continued)

(h) *Financial assets* (continued)

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 40. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

All loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible. The subsequent period-end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

3. Significant accounting policies (continued)**(h) Financial assets (continued)****(i) Loans and advances held at amortised cost**

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, and those that are to be held to maturity, are stated at amortised cost less any amount written off and provisions for impairment.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

(ii) Held as FVTLS

Loans and advances in this category are classified as either held for trading or those designated as FVTLS (Fair Value through Income Statement). Loans and advances classified as trading are acquired principally for the purpose of selling or repurchasing in short term. Loans and advances may be designated as FVTLS by the management if it satisfies the criteria laid down by IAS 39. After initial recognition, such loans and advances are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises.

(iii) Available for sale

Loans and advances classified as available for sale are subsequently measured at fair value. Any changes in fair value, other than those relating to hedged risks, are recognized directly in "other reserves" under "shareholders' equity" until these are derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated statement of income for the period.

For presentation purposes, provision for credit losses is deducted from loans and advances.

3. Significant accounting policies (continued)

(h) *Financial assets (continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

(i) *Individually assessed loans*

Represent mainly, corporate loans which are assessed individually by Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present value calculated as above.

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3. Significant accounting policies (continued)

Impairment of loans and advances (continued)

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

- a) Performing loans
- b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the balance sheet date but were not specifically identified as such until some time in the future.

The estimated impairment is calculated by the Bank's management for each identified portfolio as per the requirements of the Central Bank of the U.A.E. and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying formulaic approach and loans are written off between 150-180 days past their due date based on products features.

(i) Customers' deposits and medium term floating rate notes

Customers' deposits and medium-term floating rate notes are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

(j) Repurchase transactions

Securities sold under agreements to repurchase ("repo") continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for FVTPL or for 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 expensed over the life of each agreement.

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3. Significant accounting policies (continued)

(k) Financial liabilities instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 40.

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3. Significant accounting policies (continued)

(k) Financial liabilities instruments issued by the Group (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(l) 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.

(m) 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.

(n) Taxes on income

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

(o) 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.

3. Significant accounting policies (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(q) De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a Group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

(r) Islamic financing and investment products

In addition to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board.

All non-interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

(i) The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a

An agreement between the Bank and a customer whereby the Bank would sell to the customer a developed property according to agreed upon specifications. The Bank would develop the property either on its own or through a subcontractor and then hand it over to the customer on fixed date at an agreed price.

3. Significant accounting policies (continued)

(r) Islamic financing and investment products (continued)

Ijara

An agreement whereby the Bank acting as a lessor, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Bank and a customer whereby the Bank would provide a certain amount of funds, which the customer would then invest in a specific enterprise or activity against a specific share in the profit. The customer would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3. Significant accounting policies (continued)

(r) Islamic financing and investment products (continued)

(ii) Revenue recognition

Revenue is recognized on the above Islamic products as follows:

Murahaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time proportion basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price to the customer and the Bank's total Istisna'a cost) are accounted for on a time proportion basis.

Ijara

Ijara income is recognized on a time proportion basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

Mudaraba

Income on mudaraba financing is recognized on distribution by the mudarib, whereas the losses are charged to income on their declaration by the mudarib.

Wakala

Estimated income from Wakala is recognized on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(s) Provisions

Provisions are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

(t) Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies, which are described in Note 3. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment of loans

The Group's accounting policy for allowances in relation to impaired loans and advances is described in Note 3(h). Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loan book based on market trend and historical pattern of defaults.

The allowance for loan losses is established through charges to income in the form of an allowance for loan loss. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for loan losses and affect the income statement accordingly.

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to, the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

1. The customer's aggregate borrowings.
2. The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
3. The value of the collateral and the probability of successful repossession.
4. The cost involved to recover the debts.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

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4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Collectively assessed loans

Collectively assessed allowances are made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant and incorporate accounts, as follows:

The portfolio approach is applied to accounts in the following portfolios:

1. Personal loans,
2. Credit cards,
3. Auto loans, and
4. Mortgage loans

The management of the Bank assess, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified as of the balance sheet date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly.

(ii) Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

(iii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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4. Critical accounting judgements and key sources of estimation uncertainty (continued)

(iv) Impairment of available-for-sale equity investments

The Group exercises judgement to consider impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(v) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

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5. Cash and balances with central banks

	December 31,	
	2007	2006
	AED '000	AED '000
Cash on hand	231,137	274,351
Balances with central banks:		
Current accounts and other balances	1,574,196	521,466
Statutory cash ratio requirements	1,597,378	1,179,871
Certificates of deposit/placements with the Central Banks	16,797,412	430,000
	<u>20,200,123</u>	<u>2,405,688</u>

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

6. Deposits and balances due from banks

	December 31,	
	2007	2006
	AED '000	AED '000
Demand	1,417,089	792,598
Overnight	1,452,975	453,849
Time	5,089,783	7,310,465
	<u>7,959,847</u>	<u>8,556,912</u>
The above represent balances due from:		
Banks abroad	7,192,177	8,190,249
Banks in the U.A.E.	767,670	366,663
	<u>7,959,847</u>	<u>8,556,912</u>

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7. Investments

		December 31,	
		2007	2006
		AED '000	AED '000
(a)	Trading investments		
	Held for trading		
	Debt securities	7,323,222	7,065,331
	Equities	323,136	201,945
	Discretionary managed fund	1,301,249	1,852,963
	Other investments	1,075,534	974,217
		<u>10,023,141</u>	<u>10,094,456</u>
(b)	Non trading investments		
(i)	Available-for-sale		
	Debt securities	1,687,851	425,201
	Equities	2,709,398	2,313,092
	Others	156,700	82,751
		<u>4,553,949</u>	<u>2,821,044</u>
(ii)	Held-to-maturity		
	Debt securities	196,959	34,235
		<u>4,750,908</u>	<u>2,855,279</u>
	Less: Provision for impairment	(1,890)	(14,286)
		<u>4,749,018</u>	<u>2,840,993</u>
	Total investments	<u>14,772,159</u>	<u>12,935,449</u>

(c) The analysis of investments by industry sector is as follows:

		December 31,	
		2007	2006
		AED '000	AED '000
	Government and Public Sector	3,243,075	3,444,876
	Commercial and Business	1,569,456	909,769
	Financial Institutions	7,170,354	5,554,766
	Other	2,789,274	3,026,038
	Total	<u>14,772,159</u>	<u>12,935,449</u>

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7. Investments (continued)

- (d) The movements in the provision for the impairment of investment in securities during the year were as follows:

	December 31,	
	2007 AED '000	2006 AED '000
Balance at the beginning of the year	14,286	14,286
Write-back during the year	(12,390)	-
Balance at the end of the year	1,890	14,286

- (e) "Held-for-trading" and "Available-for-sale" investments at December 31, 2007 included AED 219.69 million held in the names of "related parties" nominees for the account and for the benefit of the Bank (2006: AED 189.27 million).
- (f) The fair value of investments classified under held-to-maturity amounted to AED 193.572 million as of December 31, 2007 (2006: AED 34.790 million).
- (g) The above investments include debt securities aggregating to AED 4,531.404 million (2006: AED 1,332.540 million) [held-for-trading at fair value of AED 3,960.904 million (2006: AED 1,134.132 million) and available-for-sale at fair value of AED 570.500 million (2006: AED 198.408 million) sold under repurchase agreements ("repo") and which are fully substitutable (Note 14).

8. Loans and advances (net)

	December 31,	
	2007 AED '000	2006 AED '000
(a) Overdrafts	5,164,711	4,481,428
Loans	30,374,216	23,780,624
Credit Cards	1,367,155	1,090,454
Others	179,447	143,581
	37,085,529	29,496,087
Less: Allowance for impairment	(1,090,555)	(923,854)
	35,994,974	28,572,233

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8. Loans and advances (net) - continued

	December 31,	
	2007 AED '000	2006 AED '000
(b) Analysis by industry sector		
Manufacturing	3,405,263	3,251,605
Construction	2,403,216	1,513,268
Trade	7,658,305	5,923,022
Transport and communication	1,702,992	1,119,054
Services	3,910,876	2,307,072
Banks and financial institutions	3,744,117	3,795,477
Personal	9,091,102	8,405,769
Government/public sector	5,151,787	2,881,550
Others	17,871	299,270
	37,085,529	29,496,087
Less: Allowance for impairment	(1,090,555)	(923,854)
	35,994,974	28,572,233

The performing loans and advances include AED 377 million (2006: AED 294 million) of loans and advances that are past due but not impaired.

- (c) In certain cases, 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. 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 383 million at December 31, 2007 (2006: AED 379 million).
- (d) The movements in the allowance for impairment of loans and advances during the year were as follows:

	December 31,	
	2007 AED '000	2006 AED '000
Balance at the beginning of the year	923,854	827,353
Impairment allowance for the year	231,066	123,241
Amount written off during the year	(15,627)	(10,892)
Recoveries during the year	(48,738)	(15,848)
Balance at the end of the year	1,090,555	923,854

The amount of impairment allowance for the year includes AED 38 million (2006: AED 40 million) of interest accrued on impaired loans and advances for litigation purposes which is not taken to income.

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9. Islamic financing and investment products

	December 31,	
	2006 AED '000	2005 AED '000
(a) Financing		
Murabaha	336,118	20,072
Ijara	761,199	75,595
	<u>1,097,317</u>	<u>95,667</u>
Investing		
Musharakah	614,190	128,969
Wakala	292,892	606,391
Sukuk and funds	343,189	-
	<u>1,250,271</u>	<u>735,360</u>
Total	2,347,588	831,027
Less: Unearned income	(1,825)	(2,013)
Provision for impairment	(494)	-
	<u>2,345,269</u>	<u>829,014</u>
(b) Analysis by economic activities:		
Construction	586,223	-
Trade	752	1,598
Transport and communication	3,010	-
Services	485,934	-
Banks and financial institutions	876,214	735,360
Personal	191,791	18,474
Government/public sector	203,664	75,595
	<u>2,347,588</u>	<u>831,027</u>
Less: Unearned income	(1,825)	(2,013)
Provision for impairment	(494)	-
	<u>2,345,269</u>	<u>829,014</u>

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10. Interest receivable and other assets

	December 31,	
	2007	2006
	AED '000	AED '000
Interest receivable	317,208	134,454
Prepaid interest and expenses	66,802	49,775
Taxes paid in advance	33,300	26,922
Clearing suspense	9,298	8,770
Positive fair value of derivatives – Note 39	2,433,377	838,808
Insurance related receivables	497,293	370,226
Credit Cards interchange receivables	59,848	44,566
Inter-group transaction	-	43,181
Customer acceptance	1,337,223	1,157,635
Others	718,575	107,468
	<u>5,472,924</u>	<u>2,781,805</u>

11. Investment property

	2007	2006
	AED '000	AED '000
Interest in buildings and freehold land - January 1,	361,739	224,103
Additions during the year	15,770	74,147
Sold during the year	(31,801)	-
Write off during the year	-	(668)
Change in fair value during the year	152,732	64,157
	<u>498,440</u>	<u>361,739</u>

The fair value of investment property as of December 31, 2007 has been arrived at on the basis of a valuation carried out on November 29, 2007 and on October 31, 2007 by independent valuers.

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12. Property and equipment

	Property for own use AED '000	Property acquired in settlement of debts AED '000	Furniture, fixtures, equipment & vehicles AED '000	Improvements to freehold properties and others AED '000	Capital work-in- progress AED '000	Total AED '000
Cost						
At December 31, 2005	158,057	21,525	142,369	76,920	-	398,871
Additions	4,209	29	59,984	66,419	32,166	162,807
Disposals/write-offs	(202)	(3)	(4,897)	(12,055)	-	(17,157)
At December 31, 2006	162,064	21,551	197,456	131,284	32,166	544,521
Additions	3,033	176	44,071	42,223	60,377	149,880
Disposals/write-offs	-	-	(34,456)	(6,704)	-	(41,160)
At December 31, 2007	165,097	21,727	207,071	166,803	92,543	653,241
Accumulated depreciation						
At December 31, 2005	73,213	3	97,637	34,191	-	205,044
Charge for the year	6,036	-	24,985	22,928	-	53,949
Disposals/write-offs	(197)	(3)	(4,519)	(12,028)	-	(16,747)
At December 31, 2006	79,052	-	118,103	45,091	-	242,246
Charge for the year	5,769	-	31,506	30,125	-	67,400
Disposals/write-offs	-	-	(33,442)	(6,624)	-	(40,066)
At December 31, 2007	84,821	-	116,167	68,592	-	269,580
Carrying amount						
At December 31, 2007	80,276	21,727	90,904	98,211	92,543	383,661
At December 31, 2006	83,012	21,551	79,353	86,193	32,166	302,275

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 285.24 million (2006: AED 285.24 million).

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13. Deposits and balances due to banks

	December 31,	
	2007	2006
	AED '000	AED '000
Demand	1,550,649	1,218,496
Overnight	1,330,848	658,106
Time	10,515,527	3,825,936
	<u>13,397,024</u>	<u>5,702,538</u>
The above represent borrowings from:		
Banks in the U.A.E.	4,300,553	551,706
Banks abroad	9,095,490	5,148,957
Overseas central banks	981	1,875
	<u>13,397,024</u>	<u>5,702,538</u>

Borrowings from banks abroad include an amount of AED 1,836.5 million (US\$ 500 million) [2006: AED 918.25 million (US\$ 250 million)] being a 5 years loan obtained through a syndicate of banks maturing in July 2012. The loan carries a floating rate of interest which is fixed by reference to 6 months LIBOR.

14. Repurchase agreements with banks

Repo borrowing

<u>Tenure</u>	<u>Due date</u>	<u>Interest rate</u>	December 31,	
			2007	2006
			AED '000	AED '000
5 year	October 2011	3 months USD Libor	183,650	183,650
1 year	December 2007	12 months USD Libor	-	1,101,962
6 months	June 2008	6 months USD Libor	768,032	-
6 months	June 2008	6 months USD Libor	1,070,763	-
3 months	March 2008	3 months USD Libor	919,136	-
3 months	June 2008	3 months USD Libor	892,732	-
			<u>3,834,313</u>	<u>1,285,612</u>

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15. Customers' deposits

	December 31,	
	2007	2006
	AED '000	AED '000
Current and other accounts	10,506,336	6,570,427
Saving accounts	659,141	437,126
Time deposits	34,968,037	26,900,682
	<u>46,133,514</u>	<u>33,908,235</u>

16. Insurance and life assurance funds

	Outstanding claims	Unearned premium reserve	Additional reserve	Life assurance fund	December 31,	
					2007	2006
	AED'000	AED'000	AED'000	AED'000	Total	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
January 1,	103,156	180,600	32,747	57,437	373,940	260,448
Increase/(decrease)	41,406	97,096	19,003	(14,550)	142,955	113,492
December 31,	<u>144,562</u>	<u>277,696</u>	<u>51,750</u>	<u>42,887</u>	<u>516,895</u>	<u>373,940</u>

Unearned premium reserve is 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.

Life assurance fund is determined by independent actuarial valuation of future policy benefits.

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17. Interest payable and other liabilities

	December 31,	
	2007	2006
	AED '000	AED '000
Accrued interest payable	442,334	256,727
Income received in advance – discounted bills	205,985	133,829
Provision for end-of-service indemnity	104,070	89,766
Provision for taxation	32,704	29,899
Pay orders issued	157,691	120,451
Negative fair value of derivatives – Note 39	2,482,251	790,409
Credit Cards interchange fee income	38,610	27,320
Insurance premium collected in advance	381,542	288,322
Accrued expenses	376,186	228,179
Acceptances	1,337,223	1,157,635
Inter-group transactions	60,122	-
Others	238,605	234,334
	5,857,323	3,356,871

18. Medium-term floating rate notes

During 2004, the Bank established a Euro Medium Term Note (EMTN) programme for US\$ 750 million (AED 2,754.75 million) under fiscal agency agreement dated February 4, 2004. The EMTN programme was increased to US\$ 2,000 million (AED 7,346 million) under fiscal agency agreement dated March 21, 2006.

The maturities of the bonds (FRN) issued under the programme are as follows:

		December 31,	
		2007	2006
		AED '000	AED '000
<u>Due date</u>	<u>Interest rate</u>		
February 27, 2009	3 months Libor + 0.55%	1,101,900	1,101,900
March 23, 2010	3 months Libor + 0.40%	1,193,725	1,193,725
April 6, 2011	3 months Libor + 0.38%	1,101,900	1,101,900
January 24, 2017	3 months Libor + 0.625%	1,836,500	-
		5,234,025	3,397,525

The US\$ 500 Million (AED 1.836 Million) tranche issued during January 2007 is a subordinated floating rate note and qualifies for Tier 2 subordinated loan capital for first 5 years till 2012 and thereafter it will be amortized at the rate of 20% per annum for next five years until 2017 for capital adequacy calculations. However, FRN is callable in 5 years i.e. in 2012 if not redeemed on completion of 5 years, there is provision of step up in coupon rate for 0.5% for next 5 years. This subordinated FRN has been approved by UAE Central Bank for recognition of Tier 2 capital.

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19. 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.

20. Capital and reserves

(a) Share capital

During 2007, a proposed bonus share distribution, of 3 shares for each 10 shares was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting.

As of December 31, 2007, 112,605,380 ordinary shares of AED 10 each (2006: 86,619,520 ordinary shares of AED 10 each) were issued and are fully paid up.

(b) Statutory and legal reserves

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

(c) General reserve

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

21. Minority interest

	December 31,	
	2007	2006
	AED '000	AED '000
Balance, January 1,	571,395	896,087
Dividends	(31,011)	(35,441)
Share in cumulative changes in fair values	149,521	(352,849)
Share in translation adjustments	31	1
Share of net income for the year	225,363	72,102
Share of minority in newly formed subsidiaries	-	1,500
Reduction in minority's capital	(44,753)	(10,005)
	<u>870,546</u>	<u>571,395</u>

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22. Contra accounts and commitments

		December 31,	
		2007	2006
		AED '000	AED '000
(a)	Contra accounts (memoranda)		
	Guarantees	30,920,961	19,600,484
	Letters of credit	7,242,966	4,821,188
		<u>38,163,927</u>	<u>24,421,672</u>
(b)	Derivative financial instruments (Note 39)	213,069,614	153,833,802
		<u>251,233,541</u>	<u>178,255,474</u>
Total contra account and commitments (a + b)			

The outstanding unutilised facilities as of December 31, 2007 amounted to AED 26.836 million, committed AED 9.097 and un-committed AED 17.739 million (2006: AED 23.937 million, committed AED 6.394 and un-committed AED 17.543 million).

The outstanding unused portion of commitments as at December 31, 2007, which can be revoked unilaterally at any time by the Bank, amounts to AED 17.739 million (2006: AED 17.543 million).

(c) Contra accounts – maturity profile

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

	2007					Total AED'000
	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	
Guarantees	23,609,921	2,216,863	1,983,095	2,751,731	359,351	30,920,961
Letters of credit	4,289,203	849,599	691,823	1,411,375	966	7,242,966
	<u>27,899,124</u>	<u>3,066,462</u>	<u>2,674,918</u>	<u>4,163,106</u>	<u>360,317</u>	<u>38,163,927</u>

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22. Contra accounts and commitments (continued)

(d) Contra accounts – maturity profile (continued)

	2006					Total AED'000
	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	
Guarantees	13,482,826	2,277,760	1,737,622	1,636,787	465,489	19,600,484
Letters of credit	3,472,539	688,318	507,618	152,713	-	4,821,188
Total	16,955,365	2,966,078	2,245,240	1,789,500	465,489	24,421,672

The analysis of commitments and contingencies by industry sector is shown in Note 36.

(c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

	December 31,	
	2007 AED '000	2006 AED '000
Less than 1 year	41,274	40,467
1 to 5 years	32,668	31,676
Over 5 years	102	679
Total	74,044	72,822

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23. Interest income

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
Loans and advances	2,716,282	2,055,460
Central Banks	373,456	65,202
Banks	796,878	473,315
Non-trading Investments	63,365	48,576
	<u>3,949,981</u>	<u>2,642,553</u>

24. Income from Islamic financing and investment products

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
<u>Financing</u>		
Murabaha	8,640	1,580
Ijara	<u>22,020</u>	<u>2,205</u>
	<u>30,660</u>	<u>3,785</u>
<u>Investing</u>		
Musharakah	26,733	415
Wakala	14,298	27,852
Sukuk and Funds	<u>9,817</u>	<u>-</u>
	<u>50,848</u>	<u>28,267</u>
Total	<u>81,508</u>	<u>32,052</u>

25. Interest expense

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
Customers' deposits	1,827,052	1,174,598
Central Banks	3	270
Banks	656,320	411,064
Medium term loans	<u>304,974</u>	<u>177,921</u>
	<u>2,788,349</u>	<u>1,763,923</u>

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26. Distribution to depositors – Islamic products

This represents the share of income allocated due to depositors of the Bank. The allocation and distribution to depositors is approved by Sharia Board.

27. Net fee and commission income / expense

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
Fee and commission income		
Commission income	1,686,713	877,356
Brokerage and asset management	40,107	35,833
Re-insurance commission	117,039	85,568
Fees and charges on banking services	455,556	242,767
Credit Card related fee	413,509	304,779
Others	91,905	79,154
Total fee and commission income	2,804,829	1,625,457
Fee and commission expenses		
Commission expense	1,356,052	627,293
Brokerage and asset management	146,284	109,552
Credit Card related expenses	189,853	141,300
Others	21,436	49,200
Total fee and commission expenses	1,713,625	918,345
Net fee and commission income	1,091,204	707,112

28. Net investment income

	<u>Year ended December</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
(a) Trading investment income		
Net realized investment gain/(loss)	252,767	(52,767)
Fair value adjustments	136	63
Interest income	385,846	235,846
Dividends income	88	
	638,837	246,142

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28. Net investment income (continued)

Year ended December

2007
AED '000

2006
AED '000

- (b) Non trading investment income
- Not realized investment gain
- Dividends income

139,316

466,000

95,606

55,000

234,922

521,000

873,759

768,000

Total (a + b)

29. Other income

Year ended December

2007
AED '000

2006
AED '000

- Fair value adjustments of investment property
- Income from investment property
- Foreign exchange gains (net)
- Insurance underwriting profit
- (Loss)/gain on sale of property and equipment
- Rental income from properties
- Others

152,732

6,000

405

12,000

161,425

12,000

315,249

23,000

(67)

6,588

5,127

1,000

50,194

1,000

685,065

46,000

30. General and administrative expenses

Year ended December

2007
AED '000

2006
AED '000

- Salaries and employee related expenses
- Depreciation on property and equipment
- Other general and administration expenses

828,036

66,000

67,400

3,000

514,351

3,000

1,409,787

1,06,000

Compensation of key management (included above under "salaries and employee related expenses") comprise salaries, bonuses and other benefits amounting in total to AED 116.09 million (AED 94.94 million in 2006) - Note 35.

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31. Allowances for loans and advances and other financial assets

	2007			
	Retail AED'000	Corporate and others AED'000	Non-specific AED'000	Total AED'000
Provision for impaired loans and advances	10,640	82,896	100,000	193,536
Provision for investments and others	-	17,815	-	17,815
Provision for other debtors	-	(8,513)	-	(8,513)
Write-off of impaired loans to income statement	247,601	11,596	-	259,197
Recovery of loans previously written off	(97,697)	(56,043)	-	(153,650)
Total	<u>160,634</u>	<u>47,751</u>	<u>100,000</u>	<u>308,385</u>

	2006			
	Retail AED'000	Corporate and others AED'000	Non-specific AED'000	Total AED'000
Provision for impaired loans and advances	11,013	9,134	62,777	83,124
Provision for investments and others	-	2,336	-	2,336
Provision for other debtors	-	(945)	-	(945)
Write-off of impaired loans to income statement	175,798	2,787	-	178,585
Recovery of loans previously written off	(69,963)	(46,533)	-	(116,496)
Total	<u>116,848</u>	<u>(33,021)</u>	<u>62,777</u>	<u>146,604</u>

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32. 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:

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Net income for the year (AED'000)	1,900,632	1,570,640
(Attributed to equity holders of the parent)	<u>112,605,380</u>	<u>112,605,380</u>
Number of ordinary shares outstanding	16.88	13.95
Earnings per share (AED)	<u>16.88</u>	<u>13.95</u>

The number of ordinary shares outstanding as of December 31, 2006 has been adjusted to reflect the bonus shares issued during 2007 [Note 20(a)].

33. Foreign restricted assets

Net assets equivalent to AED 76.736 million as of December 31, 2007 (2006: AED 57.852 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

34. 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:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED '000</u>	<u>AED '000</u>
Cash on hand, current accounts and deposits with central banks	20,200,123	2,405,688
Deposits and balances due from banks	7,959,847	8,556,912
	<u>28,159,970</u>	<u>10,962,600</u>
Less: Deposits with central banks for regulatory purposes	(1,597,378)	(1,179,871)
Less: Deposits maturing after 3 months	(4,406,824)	(2,575,866)
	<u>22,155,768 (a)</u>	<u>7,206,863 (b)</u>
Increase in cash and cash equivalents - 2007 ((a) - (b))	<u>14,948,905</u>	

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34. Cash and cash equivalents (continued)

	December 31,	
	2006	2005
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	2,405,688	4,004,935
Deposits and balances due from banks	<u>8,556,912</u>	<u>7,066,495</u>
	10,962,600	11,071,430
Less: Deposits with central banks for regulatory purposes	(1,179,871)	(962,735)
Less: Deposits maturing after 3 months	<u>(2,575,866)</u>	<u>(1,952,150)</u>
	7,206,863 (a)	8,156,545 (b)
Increase in cash and cash equivalents - 2006 [(a) - (b)]	<u>(949,682)</u>	

35. Related party transactions

- a) Certain "related parties" (such as, 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. Such related party transactions are disclosed below. Other "related party transactions" are disclosed in Notes 7 and 30 to these financial statements.

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

	December 31,	
	2007	2006
	AED '000	AED '000
Advances to customers	854,140	646,675
Deposits from customers	<u>931,563</u>	<u>685,763</u>
Letters of credit, guarantees and acceptances	<u>2,169,951</u>	<u>1,562,630</u>

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

	Year ended December 31,	
	2007	2006
	AED '000	AED '000
Interest income	65,008	52,250
Interest expense	<u>29,097</u>	<u>18,052</u>
Other income	<u>52,434</u>	<u>49,524</u>

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36. Concentrations of assets, liabilities and off balance sheet items

Geographic regions

	December 31, 2007			December 31, 2006		
	Assets AED'000	Liabilities and Equity AED'000	Off Balance Sheet items AED'000	Assets AED'000	Liabilities and Equity AED'000	Off Balance Sheet items AED'000
U.A.E.	60,329,702	70,817,322	30,861,253	38,970,230	49,241,540	23,322,276
Other Middle East countries	12,682,229	7,878,676	1,737,246	3,974,922	2,360,888	500,521
O.E.C.D.	5,897,036	6,895,237	3,379,336	8,553,102	3,404,040	364,198
Others	8,718,430	2,036,162	2,186,092	5,246,861	1,738,647	234,677
Total	87,627,397	87,627,397	38,163,927	56,745,115	56,745,115	24,421,672

Industry Sector

	December 31, 2007			December 31, 2006		
	Assets AED'000	Liabilities and Equity AED'000	Off Balance Sheet items AED'000	Assets AED'000	Liabilities and Equity AED'000	Off Balance Sheet items AED'000
Government and Public Sector	8,941,234	8,686,841	121,853	5,664,378	5,017,823	116,544
Commercial & Business	22,020,799	21,886,896	33,647,659	16,171,077	15,874,470	18,145,773
Personal	8,972,076	13,774,971	21,180	8,054,468	11,280,441	434,754
Financial Institutions	40,024,733	39,219,309	4,266,701	21,116,651	18,544,363	4,835,349
Others	7,668,555	4,059,380	106,534	5,738,541	6,028,018	889,252
Total	87,627,397	87,627,397	38,163,927	56,745,115	56,745,115	24,421,672

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37. Segmental information

	2007							Total AED'000
	Retail AED'000	Corporate AED'000	Financial Institutions AED'000	Islamic Banking AED'000	Treasury & Capital Markets AED'000	Insurance AED'000	Head Office and Others AED'000	
Net interest income and earnings from Islamic products	808,490	652,903	92,725	38,825	(543,995)	17,971	133,539	1,200,458
Other income	421,674	508,622	129,534	3,349	762,404	738,764	85,681	2,650,028
Total operating income	1,230,164	1,161,525	222,259	42,174	218,409	756,735	219,220	3,850,486
General and administrative expenses								(1,409,787)
Allowances for loans and advances and other financial assets								(308,385)
Income before taxes and minority interest								2,132,314
Taxation								(6,319)
Net income for the year								2,125,995
Attributed to:								
Equity holders of the parent								1,900,632
Minority interest								225,363
								2,125,995
Segment Assets	8,962,632	26,049,346	8,254,899	2,700,200	31,363,300	3,767,182	6,529,838	87,627,397
Segment Liabilities	9,872,700	38,634,121	4,131,800	2,159,127	7,920,400	1,644,512	12,780,139	77,142,999

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37. Segmental information (continued)

	2006							Total AED'000
	Retail AED'000	Corporate AED'000	Financial Institutions AED'000	Islamic Banking AED'000	Treasury & Capital Markets AED'000	Insurance AED'000	Head Office and Others AED'000	
Net interest income and earnings from Islamic products	616,037	486,699	80,712	1,546	(378,694)	5,959	67,918	882,177
Other income	316,701	337,517	101,326	529	610,737	280,362	298,089	1,945,261
Total operating income	932,738	824,216	182,038	4,075	232,043	286,321	366,007	2,827,438
General and administrative expenses								(1,031,470)
Allowances for loans and advances and other financial assets								(146,604)
Income before taxes and minority interest								1,649,364
Taxation								(6,622)
Net Income for the year								1,642,742
Attributed to:								1,570,640
Equity holders of the parent								72,102
Minority interest								1,642,742

1,066,158	14,424,972	631,700	918,875	16,744,355	2,712,904	3,176,145	56,745,115
					24,262		24,262

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38. Classification of financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2007:

	At fair value through profit or loss AED'000	Available- for-sale AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	20,200,123	20,200,123
Deposits and balances due from banks	-	-	-	7,959,847	7,959,847
Trading investment	10,023,141	-	-	-	10,023,141
Loans and advances - net	-	-	35,994,974	-	35,994,974
Islamic Financing and Investing Products	-	-	2,345,269	-	2,345,269
Non-trading investments	-	4,553,949	-	195,069	4,749,018
Interest receivable and other assets	2,433,377	-	-	3,039,547	5,472,924
Investment property	498,440	-	-	-	498,440
Total	12,954,958	4,553,949	38,340,243	31,394,586	87,243,736
Deposits and balances due to banks	-	-	-	13,397,024	13,397,024
Repurchase agreements with banks	-	-	-	3,834,313	3,834,313
Customers' deposits	-	-	-	46,133,514	46,133,514
Islamic customers' deposits	-	-	-	2,153,198	2,153,198
Insurance and life assurance funds	-	-	-	516,895	516,895
Interest payable and other liabilities	2,482,251	-	-	3,342,368	5,824,619
Medium-term floating rate notes	-	-	-	5,234,025	5,234,025
Long-term loans	-	-	-	16,707	16,707
Total	2,482,251	-	-	74,628,044	77,110,295

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38. Classification of financial assets and liabilities (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2006:

	At fair value through profit or loss AED'000	Available- for-sale AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	2,405,688	2,405,688
Deposits and balances due from banks	-	-	-	8,556,912	8,556,912
Trading investment	10,094,456	-	-	-	10,094,456
Loans and advances - net	-	-	28,572,233	-	28,572,233
Islamic Financing and Investing Products	-	-	829,014	-	829,014
Non-trading investments	-	2,821,044	-	19,949	2,840,993
Interest receivable and other assets	838,808	-	-	1,942,997	2,781,805
Investment property	361,739	-	-	-	361,739
Total	11,295,003	2,821,044	29,401,247	12,925,546	56,442,840
Deposits and balances due to banks	-	-	-	5,702,538	5,702,538
Repurchase agreements with banks	-	-	-	1,285,612	1,285,612
Customers' deposits	-	-	-	33,908,235	33,908,235
Islamic customers' deposits	-	-	-	747,890	747,890
Insurance and life assurance funds	-	-	-	373,940	373,940
Interest payable and other liabilities	790,409	-	-	2,536,563	3,326,972
Medium-term floating rate notes	-	-	-	3,397,525	3,397,525
Long-term loans	-	-	-	23,541	23,541
Total					

Mashreqbank psc Group

39. 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 marked to market 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, nor market risk.

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39. Derivatives (continued)

Statement of Derivatives as at December 31, 2007

Off-Balance Sheet Financial Instruments	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term of maturity				
				Up to 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 year to 5 years AED'000	Over 5 years AED'000
Held for Trading								
Forward foreign exchange contract	283,859	269,906	48,562,465	40,835,150	2,200,364	1,009,218	4,517,733	-
Foreign exchange options (bought)	-	1,850,006	76,909,969	14,870,003	26,385,950	27,938,340	7,359,438	356,238
Foreign exchange options (sold)	1,850,005	-	76,909,969	14,870,003	26,385,950	27,938,340	7,359,438	356,238
Interest rate swaps	293,647	348,206	9,690,241	19,274	3,673	199,785	7,608,476	1,859,033
Cap bought	-	4	104,500	-	-	-	104,500	-
Cap sold	4	-	104,500	-	-	-	104,500	-
Credit default swaps	935	3,547	144,782	-	-	-	122,727	22,055
Equity derivatives	-	5,655	15,570	-	-	-	15,570	-
Futures contracts purchased (Customer)	-	1,640	236,734	154,261	-	65,703	16,770	-
Futures contracts sold (Customer)	3,287	-	77,075	77,075	-	-	-	-
Futures contracts sold (Bank)	1,640	-	236,734	154,261	-	65,703	16,770	-
Futures contracts purchased (Bank)	-	3,287	77,075	77,075	-	-	-	-
	<u>2,433,377</u>	<u>2,482,251</u>	<u>213,069,614</u>	<u>71,057,102</u>	<u>54,975,937</u>	<u>57,217,089</u>	<u>27,225,922</u>	<u>2,593,564</u>

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39. Derivatives (continued)

Statement of derivatives as at December 31, 2006

Off-Balance Sheet Financial Instruments	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term of maturity				
				Upto 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 year to 5 years AED'000	Over 5 years AED'000
Held for Trading								
Forward foreign exchange contract	126,769	76,444	20,565,031	18,968,700	510,278	311,055	774,998	-
Foreign exchange options (bought)	-	510,810	64,966,405	10,083,867	10,415,809	26,847,896	17,618,833	-
Foreign exchange options (sold)	510,758	-	64,966,405	10,083,867	10,415,809	26,847,896	17,618,833	-
Interest rate swaps	199,518	201,392	2,934,215	7,346	86,631	91,964	1,383,534	1,364,740
Cap bought	-	36	146,300	-	-	-	146,300	-
Cap sold	36	-	146,300	-	-	-	146,300	-
Futures contracts purchased (Customer)	40	-	25,464	25,464	-	-	-	-
Futures contracts sold (Customer)	-	1,687	29,109	26,668	-	2,441	-	-
Futures contracts sold (Bank)	-	40	25,464	25,464	-	-	-	-
Futures contracts purchased (Bank)	1,687	-	29,109	26,668	-	2,441	-	-
	<u>838,808</u>	<u>790,409</u>	<u>153,833,802</u>	<u>39,248,044</u>	<u>21,428,527</u>	<u>54,103,693</u>	<u>37,688,798</u>	<u>1,364,740</u>

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40. Capital management

Regulatory capital

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the UAE adopted Basel One capital regime in 1993. Mashreqbank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the UAE. The minimum capital ratio prescribed by the Central Bank is 10% of RWA calculated as per the guidelines issued by them.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve (45%) relating to unrealised gains on investments classified as available-for-sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The Central Bank of the UAE does not allow collective impairment allowances to be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items. The Tier One Capital must be 6% of RWA and Tier 2 Capital cannot be more than 66.6% of Tier One Capital.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically Group has followed conservative dividend policy to increase capital from internal resources to meet the future growth.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

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40. Capital management (continued)

The Group's regulatory capital position at December 31 was as follows:

	December 31,	
	2007 AED '000	2006 AED '000
Tier 1 capital		
Ordinary share capital	1,126,054	866,195
Statutory & Legal Reserve	599,009	469,453
General Reserve	312,000	312,000
Retained earnings	7,068,366	5,557,149
Minority interests	721,025	531,729
Foreign currency translation reserve	(2,155)	(11,449)
Total	9,824,299	7,725,077
Tier 2 capital		
Asset revaluation reserve	297,045	100,749
Qualifying subordinated liabilities	1,836,500	.
Total	2,133,545	100,749
Total capital base	11,957,844	7,825,826
Risk-weighted assets		
On balance sheet	47,683,537	33,158,257
Off balance sheet	19,661,810	11,519,476
Total risk-weighted assets	67,345,347	44,677,733
Risk asset ratio	17.76%	17.52%

The Central Bank of the UAE has proposed to adopt Basel 2 for implementation effective January 1 2008. For credit and market risk Central Bank has issued draft guidelines for the implementation of Standardised approach. For operational risk the Central Bank has given option to use Basic Indicator approach or the standardised approach.

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40. Capital management (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

41. Risk management

The Group has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Interest Rate Risk
- Operational Risk

The board has overall responsibility for the oversight of the risk management framework. It has established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Bank.

The Credit Policy Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Bank. These committees approve risk management policies of the bank developed by the Risk Management Group.

The Risk Management function is independent of the business and led by a qualified Risk Management Head. This group is responsible for developing credit, market and operational risk policies. Highly experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk. The risk analytic unit within Risk Management Group is responsible to develop and validate financial risk models for risk rating and calculation of PD, LGD and EAD.

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41. Risk management (continued)

The Audit, Review and Compliance Group (ARCG) is an independent Group which is responsible to review the risk policies, risk exposures and the risk managing and monitoring framework. The Board Audit Committee is assisted by ARCG in this regard.

Credit Risk Management

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 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 sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Audit, Review and Compliance Group 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.

The Credit Policy Committee is responsible for setting credit policy of the Bank. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and commercial/ institutional lending as described below.

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Bank's Credit Policy Committee (CPC). All approval authorities are delegated by the CPC or by the Chief Executive Officer acting on behalf of the CPC. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where CPC approval of the specific credit application is necessary).

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41. Risk management (continued)

Credit Risk Management (continued)

Commercial/Institutional lending

All credit applications for commercial and institutional lending are subject to the Bank's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Bank does not lend to companies operating in industries that are considered by the Bank inherently risky and where specialized industry knowledge is required. In addition, Mashreqbank sets credit limits for all customers based on an evaluation of their creditworthiness.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head and approved by the Bank's Chief Executive Officer. At least two signatures are required to approve any commercial or international credit application. However, depending on factors such as the size of the applicant, its risk rating, the client type or a specific policy issue, a third concurring signature may sometimes be required.

The Bank has established country limits for cross border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's credit risk management and periodically by the CPC.

Credit review procedures and loan classification

The Bank's Credit Review Division (the CRD) which is part of Audit, Review and Compliance Group, subjects the Bank's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

All commercial/institutional loan facilities of Bank are assigned one of twenty five risk ratings of the performing grades where grades 23, 24 and 25 are for OAEM, with more severely classified exposures graded 60, 70 and 80. Mashreq's internal rating system, which has been developed using historical loss data and customer behavioral scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel II IRB guidelines.

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41. Risk management (continued)

Credit review procedures and loan classification (continued)

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Bank writes off retail advances once they are between 150 to 180 days past their due date based on the underlying product.

The Bank also complies with IAS 39, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Bank takes the higher of the loan loss provisions required under IAS 39 and Central Bank regulations.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 60, 70 or 80 in the Group's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan or security (and any related allowances for impairment losses) when Group Credit determines that the loans / securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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41. Risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Non trading investments	
	2007	2006	2007	2006	2007	2006
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired						
Substandard	-	-	10,688	94,536	-	-
Doubtful	-	-	59,448	45,322	-	-
Loss	-	-	313,001	259,708	-	-
Gross amount	-	-	383,137	399,566	-	-
Interest suspended	-	-	(97,779)	(100,003)	-	-
Specific allowance for impairment	-	-	(338,753)	(268,504)	-	-
	-	-	(53,395)	31,059	-	-
Past due but not impaired						
Commercial loans by less than 90 days	-	-	61,770	66,209	-	-
Post due retail loans beyond 30 days over	-	-	315,567	228,145	-	-
	-	-	377,337	294,354	-	-
Neither past due nor impaired						
Gross amount	7,959,847	8,556,912	36,325,055	28,802,167	4,750,908	2,855,279
Collective allowance for impairment	-	-	(654,023)	(555,347)	(1,890)	(14,286)
	7,959,847	8,556,912	35,671,032	28,246,820	4,749,018	2,840,993
Carrying amount	7,959,847	8,556,912	35,994,974	28,572,233	4,749,018	2,840,993

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41. Risk management (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2007 or 2006.

At December 31, 2007 the fair value of collaterals held were as follows:

	Loans and advances to customers		Loans and advances to banks	
	2007	2006	2007	2006
	AED'000	AED'000	AED'000	AED'000
Against individually impaired advances:				
Property	57,180	169,371	-	-
Debt securities	-	-	-	-
Equities	-	4,011	-	-
Cash	45,876	1,960	-	-
Others	38,862	101,798	-	-
Against collectively impaired advances:				
Property	8,564,999	1,626,762	-	-
Debt securities	45,472	-	-	-
Equities	2,781,675	2,658,004	-	-
Cash	2,646,642	3,389,236	1,314,523	360,745
Others	2,815,409	2,426,715	-	-
Total	16,996,115	10,377,857	1,314,523	360,745

Mashreqbank psc Group

41. Risk management (continued)

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

<u>2007</u>	<u>UAE</u> <u>AED'000</u>	<u>Middle East</u> <u>countries</u> <u>AED'000</u>	<u>O.E.C.D</u> <u>AED'000</u>	<u>Other</u> <u>countries</u> <u>AED'000</u>	<u>Total</u> <u>AED'000</u>
Non performing loans	291,354	69,629	-	21,928	382,911
Impairment allowance for credit losses	285,441	34,124	-	19,188	338,753
 <u>2006</u>	 <u>UAE</u> <u>AED'000</u>	 <u>Middle East</u> <u>countries</u> <u>AED'000</u>	 <u>O.E.C.D</u> <u>AED'000</u>	 <u>Other</u> <u>countries</u> <u>AED'000</u>	 <u>Total</u> <u>AED'000</u>
Non performing loans	287,476	50,121	-	41,500	379,097
Impairment allowance for credit losses	214,194	28,494	-	25,816	268,504

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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41. Risk management (continued)

Management of liquidity risk (continued)

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

ALCO has a broad range of authority delegated by the Board of Directors to manage the Bank's asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Bank's operation on the basis of such review.

The members of ALCO are the Chief Executive Officer, the Head of Corporate & Investment Banking Group, the Head of Retail Banking, the Head of Treasury & Capital Markets, the Head of Risk Management Group and the Chief Financial Officer of the Bank.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Group's lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilisation of funds to stable resources and stress testing of liquid funds vs unexpected withdrawal of liabilities. For all the measures, benchmarks are set and same are reviewed by ALCO on regular basis.