ANNUAL REPORT 2004

Mashreqbank بنك المشرق

The sun never sets for you

His Highness (Late) Sheikh Zayed Bin Sultan Al Nahyan

May his soul rest in eternal paradise

His Highness Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi

His Highness Sheikh Maktoum Bin Rashid Al Maktoum

Vice President & Prime Minister of the United Arab Emirates

and Ruler of Dubai

Our Commitment

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

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

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

Contents

Mashreqbank psc Established in 1967
Head Office: P.O. Box 1250, Dubai, United Arab Emirates Tel: 2223333 (30 lines), 2737222 (40 lines), 2286947 (25 lines)
Telefax: 2226061 Telex: 45429 MSHQHO EM Cable: MASHREQBNK SWIFT: BOMLAEAD

Board of Directors

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Mr. Abdulla Bin Ahmed Al Ghurair

VICE-CHAIRMAN
Mr. Ali Rashid Ahmed Loutah

DIRECTOR &
CHIEF EXECUTIVE OFFICER
Mr. Abdul Aziz Abdulla Al Ghurair

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

Chairman's Report

A buoyant year for the country and the Bank was nevertheless tinged with immense sadness with the passing away of our first President, H.H. Shaikh Zayed Bin Sultan Al Nahyan. His immense vision and great compassion helped overcome the many challenges of building a great nation and he will forever be remembered as the true founder of a country globally recognized for its human values.

Fiscal 2004 was a year of opportunities as well as challenges for the banks in the UAE. The strong growth of the stock market, booming construction sector, rapid growth of foreign trade and ever-increasing retail sales have all contributed to an extremely buoyant UAE economy. On one hand, the double digit growth of GDP opened up new opportunities for business. On the other hand, intense competition and pressure on margins and the fast pace of growth raised serious challenges of effective risk management, profitable growth and cost management.

I am pleased to report that Mashreqbank has skillfully managed the challenges, leveraged every opportunity coming its way and has produced outstanding results for 2004. The cautious approach adopted by the bank has led to an overall improvement in asset quality, diversification of revenue and improved financial strength of the bank.

Last year, I had commented that we are on track for our 3-year Strategic Plan (2002-2004) and expect to finish ahead in every dimension. Today, I stand vindicated as we have closed 2004 by achieving all financial goals we had set for ourselves three years ago.

During the year, Operating Income reached an all time high of AED 1,721 Million, a growth of 20.5% over last year. In line with our strategy, growth in Fee and Other Income at 26% was higher than in Net Interest Income which was at 15.4%. Resultantly, one of our key performance indicators, Fee Income to Operating Income ratio further improved from 47.5% to 50% in 2004. Our subsidiary, Oman Insurance Company contributed significantly to the growth of Non-Interest Income.

We continued to manage expenses closely by emphasizing on improved productivity and enhanced automation. Therefore, Operating Expenses registered an increase of only 9.7% which improved Efficiency Ratio from 36.3% in 2003 to 33% in 2004.

We had set a target ratio of 150% of Provision to NPL coverage. I am happy to state that we have exceeded our target and this year the NPL coverage ratio stands at 178% as compared to 117% last year. We have set aside a General provision of AED 121 Million this year as against AED 25 Million last year which increased the charge to P&L from AED 188 Million to AED312 Million, and our General Provision to Advances ratio stands at 1.7% as compared to 0.9% last year.

The Net Profit for the year has shown a handsome growth of 25% to reach AED751 Million in 2004. Earnings per share improved from AED 7.63 to AED 9.54.

As compared to last year, Return on Average Assets and Average Equity went up from 2.4% to 2.6% and 16.3% to 17% respectively.

Near boom economic conditions have fuelled demand for credit. This has contributed to a growth of 21.1% in Advances in 2004. Simultaneously, keeping with an approach of optimization, of the Advances to Deposits ratio at 85%, Deposits grew by 12.5% to AED 21.1 billion, attaining a ratio of 84.5%.

Inspite of the robust growth in Assets, the Capital Adequacy ratio has remained very comfortable at 17.8%. Keeping in view future growth plans your Board recommends to retain 63.3% of profit and has proposed a cash dividend of 35% against 25% last year. The Board also recommends a stock dividend of 10% (10% last year) in the form of bonus shares.

OPERATING ENVIRONMENT

The strong performance of the UAE economy witnessed during 2003 got a further push during 2004 as Oil prices reached new peaks and production climbed to 2.4m b/d. Riding on higher oil exports, the GDP of the country is estimated to reach US$90Billion making UAE the second largest economy in the Arab world. The fiscal health of the country looks equally positive although federal budget approved in August depicts a cautious picture of $600M deficit. The 2003 consolidated Government Finance Account deficit of AED13.5 Billion is expected to move into surplus AED 600Million. Inspite of high oil income, Government spending remains controlled and is being directed towards infrastructure or productive investments.

The stock market which generally is a barometer of the economy and public confidence, has seen one of its best years. The market capitalization jumped by a hefty 50.3% to reach $67.1Billion, the second largest in the Arab world. Highly successful IPOs during the year added to stock market buoyancy.

The other sectors which strongly contributed to heightened economic activities include construction, manufacturing, tourism and services. Major infrastructure projects were announced in Dubai which include Dubailand, Industrial City, Transit Rail System, etc. Abu Dhabi accelerated its efforts to diversify the economy by promoting investments in the newly established industrial zone and privatization of various state units.

Moody's Investor Service recognized the strong performance and growing strength of the UAE economy by upgrading the long-term foreign currency country rating for bonds and bank deposits to A-1 from A-2 and short-term foreign currency country rating to Prime-1 from Prime-2 .

The buoyancy of the UAE economy is also reflected in the performance of banking sector and growth in Money supply. During the twelve month period from June 2003 to 2004, the private domestic liquidity (M2) increased by 19.3% and the overall liquidity (M3) increased by 20.6%. On the other hand, the domestic credit also expanded at a fast pace posting a growth of 25.4% during the same period. Total Assets of the banking sector jumped by 19.6% from June 2003 to June 2004 and by 8.2% in the six months since December 2003. Comparatively, low interest rates have added to this credit growth. However, during the year, the interest rates have begun to show an upward trend.

During June 2004, the Basel Committee on the Banking supervision finally issued revised framework for international convergence of Capital measurement and Capital standards. The UAE Central Bank has expressed its intention to implement the revised standards effective 1st January, 2006. Mashreqbank had been closely following the developments and is preparing to implement the new standards in accordance with UAE Central Bank's direction.

LOOKING FORWARD

All economic indicators in the UAE are pointing towards robust economic growth in the foreseeable future. The positive forecast for the future of operating environment coupled with the bank's outstanding success of 2004 has set a solid base for an ambitious growth plan. We have drawn a 3-year strategy and detailed business plan with the ambition to double the value of the bank by 2007. Performance of the next year (2005) would be critical as that will set the pace for accomplishment of our target and will demonstrate the effectiveness of our plan. For 2005, we have identified a number of strategic initiatives for high quality revenue growth, further enhancement of Risk Management practices and improved customer service Quality. Implementation plans have been drawn and the required resources are allocated to ensure effective deployment of our strategy. Since the vision is clear, the team is motivated, the leadership is inspiring and the environment is conducive, I have no doubt that we will achieve our targets and will deliver the promised superior performance in 2005 and beyond.

Before I close, I would like to thank the Mashreqbank team and the Chief Executive Officer, Abdul-Aziz Al-Ghurair for their commitment and untiring efforts in delivering outstanding performance. We are also thankful to our customers, the UAE Central Bank and the Government for their continued support.

Thank you.

Abdulla Bin Ahmed Al Ghurair
Chairman

IMPORTANT INDICATORS

	2004	2003	2002	2001	2000
Advances to Total Deposits	**74%**	70%	65%	56%	58%
Liquidity (Liquid Assets to Total Assets)	**39%**	38%	42%	48%	47%
Equity to Total Assets	**15.2%**	15.2%	14.3%	13.3%	12.3%
Efficiency Ratio	**33.06%**	36.3%	40.23%	41.95%	43.55%
Return on Average Equity (After-tax)	**17%**	16.3%	15.8%	14.1%	13.4%
Return on Average Assets (After-tax)	**2.58%**	2.41%	2.18%	1.81%	1.67%

The diversification of businesses and revenue sources provided stability to the bank's overall performance without over-reliance on any one activity.

Chief Executive Officer's Review

The Year 2004 marked the successful completion of our last Strategic Plan "Mission Adding Value". It is a matter of great satisfaction that we achieved most of the long-term goals we had set. The compounded annual growth rate of 23% in Net Profit achieved during 3 years of the planning period is the result of meticulous execution, innovative product offerings, leveraging of resources and capabilities, effective risk management and, last but not the least, buoyant market conditions.

Our focus on Customer Service Quality and relationship building improved customer satisfaction ratings and led to improved cross-selling and higher utilization of products and services. Revenue from new products and services for the current year far exceeded the target of AED 100 Million. Risk management efforts had been to rationalize credit cost and provisioning policy to enhance NPL coverage which exceeded the targeted level. Investment in staff learning and creating an enjoyable work environment has improved Employee Engagement score and staff motivation.

We are happy that the excellent results of 2004 have enabled us to close the plan period on a high note. What is more gratifying is that contribution to this success comes from all lines of business in a balanced way. The diversification of businesses and revenue sources provided stability to the bank's overall performance without over-reliance on any one activity. Our core lines of business i.e. Commercial Banking, Retail Banking, Treasury and Capital Markets and Financial Institutions along with our subsidiary, Oman Insurance Company, have all posted improved performances over the last year.

Confidence in the Bank's performance can be best gauged from the successful launch of our USD 750MM Euro Medium Term Note program in February 2004 under which the bank issued its first 5-year FRN for US$300 Million. The issue was well received and oversubscribed. Moody's Investor Service has also upgraded Mashreqbank's Foreign Currency Deposit ratings to A2/Prime-1 from A3/Prime-2 citing the bank's improving financial strength and its importance and significance to UAE banking system.

RETAIL BANKING GROUP

The Retail Business has consistently stayed focused to a few defining themes, which makes it possible to channelize the energies of our people to a set of broad and specific goals. "Mission Adding Value" has been a corporate theme for the past three years. As a result, Customer Value has been a major priority. Satisfying customers Profitably has been a more all encompassing theme for the Retail Business. It combines the twin aspects of Service Excellence and providing Value to customers for business revenue in return. The "All Things for All People" positioning stance adopted by the Business has ensured that no profitable niche, segment, or opportunity is missed – this being most necessary in a small finite market.

Mashreqbank, which was the first to launch Credit Cards in the country, has clearly identified this as a growth engine for the next few years. The UAE is still a relatively young card market with a per capita ownership of one per household. In mature advanced markets, this could be as high as 5-6. During the year, leveraging the large investments made in both technology and marketing in support of our Card issuing and merchant services businesses, we launched a breakthrough product designated the WOW Card. Incorporating a multi-function chip superimposed on which is a powerful loyalty program, the WOW card has quickly attained market leader status and has been acclaimed as a truly unique innovation at many international forums.

The Savings and Deposit mobilization thrust has been spearheaded by the Mashreq Millionaire which enters its 10th year since inception. Awarded a Certificate of Commendation as a "Brand of the Decade" by the Gulf Marketing Review, Mashreq Millionaire has virtually no market competitor.... nearly AED 35 million in prize money on offer has set the bar too high. We have also been experimenting with other innovative deposit products while further enhancing unique offerings in the portfolio such as the Global Packaged Current Account.

During the year, we significantly expanded our Retail Investment business. In a low interest environment, many of our more affluent customers seek higher-yielding options for their savings and are willing to assume incremental risk for better returns.

To aid the lending process, we have implemented an end-to-end highly automated Lending and Debt Collection system. Implemented with the assistance of global consultants – London Bridge (now named Fair Issacs), the system is wholly customized to projected long-term needs.

We are now Market Leaders in the Auto Lending business, with Murabaha and Osool brands, both used to differentiate our offerings from others. The Islamic variant of the Auto Loan has also carved a valuable niche in this growing segment. We also have gained in strength in the Housing Mortgage Market riding the very strong momentum of development in this area. The Housing Loan segment offers large potential in years ahead.

We continue to invest in business infrastructure – new and upgraded branches, as well as other delivery channels including our Call Centre which is rated highly, Internet/Online capability, SMS banking and Direct Selling. 24 x 7 is no longer an option. Customers now expect services around the clock as a basic offering, making it imperative that we continue our investments in the upgradation to stay ahead of competition and be the first choice Bank to our customers.

A new 3-year Strategic Plan, that has been assembled in the latter part of this year for implementation in 2005–7, positions the Retail Business for exciting new growth opportunities. The Business already contributes strongly to the Economic Profit of the Bank supported by attractive ROA and Expense-Revenue ratios. Sustaining and building on these will be interesting challenges going forward.

COMMERCIAL BANKING

Strong economic fundamentals of the country continued to reflect positively on the traditional businesses of Commercial Banking Group such as trade finance, contracting finance and wealth management, which remained robust during the year. There was, in addition, a strong growth seen in the relatively newer business areas due largely to the persistent focus on, and effective management of, these businesses. Business finance for small and medium enterprises, structured finance, project finance and cash management services contributed more significantly during the year. Our Japan Desk established in 2003 in collaboration with Mizuho Financial Group, the world's largest banking group, continued to progress satisfactorily. Customer acquisition by the Japan Desk has grown tremendously since its formation.

As a result of these initiatives, fee income was this year again the fastest growing item in Corporate Banking reflecting the value we add to our corporate clients' business. The share of fee income in our revenues consequently continued to grow resulting in a higher return on assets for the group despite the spreads remaining stagnant for most of the year.


Day-to-day banking
العمليات المصرفية اليومية
Loans
القروض
Deposits & Investments

Client servicing and satisfaction remained a top priority. All efforts were taken to increase the efficiency of delivery channels to ensure a higher degree of client satisfaction. A continuous communication was maintained with the clients to keep them well informed about our new initiatives and achievements. As a result, overall satisfaction levels among major corporate clients which are tested through periodic satisfaction surveys have reflected a remarkable improvement over the year.

Going forward, we will continue to grow in the traditional areas of banking with a clear focus on key client relationship management and providing better services and thereby earning customer loyalty. Contracting Finance will remain one of our areas of focus, and we will aim to increase our share of the market by supporting major local and international contractors that are presently involved in the GCC economies. As far as trade finance is concerned, we will aim to enlarge the width and depth of our target market to better support clients business and allow them to benefit from the favorable economic conditions.

We will aspire to be a house bank for most major corporate entities in our market through a relationship driven strategy which brings more value added solutions to its clients. Quality of earnings will assume the highest importance in our endeavor to create an economically valuable proposition for the bank through a judicious use of capital to improve shareholder returns.

TREASURY & CAPITAL MARKETS

The Treasury & Capital Markets Group had a very successful 2004, by expanding its array of financial services and seamlessly delivering innovative solutions to meet client requirements across all dealing platforms. The product scope and breadth of offerings were enhanced from foreign exchange to exotic investment products across various underlyings for all major markets.

During the year, the Bank established its USD 750 million Euro Medium Term Program within which it launched its first five year Floating Rate Note which was oversubscribed and well received by regional and global investors. This issue was followed by a USD 150 million syndicated loan facility which was aimed at improving the capitalization of the bank. These global offerings have established the Bank as a strong credit story in the global capital markets and have provided it with access and ability to alternative sources of capital. As part of our commitment to the growth in the domestic capital markets, the Bank established the Makaseb Emirates Equity fund which has been setup in line with global standards and aims to redefine asset management activity in the country. The Bank plans to enhance the range by launching a regional equity and fixed income offerings. Our asset management activity will be complemented by launch of 'best in class' investment solutions across asset classes to offer a comprehensive suite for our customers.

CORRESPONDENT BANKING

The Correspondent Banking business grew at a rapid pace during the year. We have been able to achieve this because of an experienced and focused financial institutions team based in Dubai with arms stretching to New York, Hong Kong, London and India. We have positioned ourselves as a provider of cross border execution capabilities. Branches at money centers like New York, Hong Kong and London have been able to provide cross border trade & payment facilities to our customers. Close relationship is being maintained in target countries through the presence of Liaison Offices in Bangladesh & Pakistan. We have been able to exploit our technological and operational expertise to cover geographical areas even where we do not have physical presence.

As planned earlier, we have been able to consolidate our business in the sub continent by utilizing the Indian branches at Mumbai and Delhi. These branches are now concentrating on correspondent banking business only. Our presence in Hong Kong has also been strengthened by establishment of a branch at Hong Kong; the subsidiary – Mashreq Asia Ltd. ceases to exist.

We have implemented a third party CLS (continuous link settlement) system which has improved efficiencies in processes and reduced settlement risk. Besides this, we have also improved the existing electronic banking offerings to our customers.

Going forward, we intend to strengthen our presence in the international arena by positioning ourselves as an institution providing Quality Service. An Initiative to centralize global operations in Dubai has started which aims to provide standard product offering, standard delivery time, single point-of-contact/resolution, customized customer offering and error free operations.

INSURANCE BUSINESS

Our subsidiary, Oman Insurance Company had an extremely successful year. The premium written during the year went up by 41% over last year and crossed the AED500 Million mark. Life Insurance business related premium grew by 68% which is faster than the growth in general insurance increasing its share of the market. Nevertheless, it still remains a small contributor to the overall revenue as compared to general insurance.

The new Bankassurance products are being launched in association with Mashreqbank as well as other banks. Strong investment income contributed significantly to the net profit which went up by 90% over the last year. During the year, Oman Insurance shares were listed on the Dubai Financial Market.

RISK MANAGEMENT

Mashreqbank has a comprehensive Risk Management framework which seeks to measure and mitigate the many components of risk arising from our businesses – Credit Risk, Market Risk and Operational Risk, as well as the aggregate Systemic Risk.

We have adopted the following basic principles to design all the Risk Management processes in the bank:

Policies: All Risk Management policies are integrated bank-wide and approved by the Credit Policy Committee. The policies are dynamic in line with changing business environment.

Ownership: Ownership of risk is shared jointly between business line managers and risk managers.

Independence: Risk Management functions and limit approval processes are independent of business line management.

Risk Review and Audit: Periodic portfolio review, credit examinations, operational audit and compliance functions are completely separate from and independent of all business functions.

During the year under review, the bank undertook a comprehensive study to bench mark its risk policies and processes. Continuous improvements are being implemented so that the bank will have world-class standards in terms of risk management policies, processes and organization, and prepare itself for adoption of Basel II provisions at the appropriate time.

Credit risk is measured and managed by an independent group which is responsible for formulating credit policies, risk metrics, underwriting and approvals, disbursements, monitoring, portfolio management and handling of problem assets. The bank has a very conservative policy for recognizing impairment and for building up a sufficient cushion of reserves for non-performing assets.

During the year, the bank completed the overhauling of credit policies, processes and organization undertaken last year. A new initiative is underway to further streamline credit analytics, risk rating and retail credit scoring, and to adopt sophisticated statistical techniques for estimating default probabilities and economic capital. Despite a period of rapid asset growth, our overall portfolio quality across commercial/institutional and consumer businesses is robust, and credit risk is being managed within acceptable levels.

Credit risk for commercial/institutional borrowers is managed through assessment of borrowers' risk profile in conjunction with industry trends, appropriate credit structures, and post-approval administration. Each credit is assigned a risk rating, and approval is based on the rating, collateral, concentration and economic value of the relationship.

Credit risk in retail portfolio is managed end-to-end throughout individual borrower's credit cycle. Statistical models are used to establish risk limits, product pricing and customer segmentation. Product programs are established within approved retail credit policies. We also have an aggressive collection and problem loan management program to minimize credit costs of the business.

Mashreqbank carries a limited amount of market risk as a policy preference, and it is continuously monitored. To measure and manage price risk, value-at-risk models are in the process of being implemented.

The bank has undertaken a comprehensive review of operational risk across all businesses in line with Basel II provisions. Adequate steps are being taken to strengthen operational risk management systems and procedures and operational risk specialists have been identified to manage this function.

Risk Review is an independent audit, review and monitoring entity of the bank which actively interacts with all business groups/divisions and technology areas to assess application of all control specifications and provide assurance to the Board of Directors, CEO and Senior Management.

It constantly upgrades its strategy and methodology to meet current and emerging challenges through its specialists in the areas of Corporate and Consumer Portfolio Reviews, Operational Audits, and Compliance to comprehensively address all risk related matters and their implications.

OPERATING INFRASTRUCTURE

In October 2004, Gartner Group, the world's leading independent IT research firm, has rated Mashreqbank's IT infrastructure as 'exemplary' when compared with peer global banks. The eight-week assessment benchmarked Mashreqbank's IT infrastructure, processes and applications against comparable global banks in 12 distinct domains. The bank gained a rating of 'exemplary' in four of the categories, 'excellent' in three areas and 'good' in the remaining five, with no areas of concern. Gartner's commended the level of industry-accepted certification and accreditation achieved by Mashreqbank for its IT as exemplary by international standards.

An advanced application processing system was implemented to streamline customer applications for loans and credit cards in the branches. Process efficiency is optimized as the application data is captured via scanned documents and is instantly made available in the central office. Implementation of this new application would result in substantial cost savings and much improved loan processing cycles. Among other technological innovations, a new age call management system was implemented which increases the productivity and efficiency of customer service.

Mashreqbank has, by far, the most diversified scope of ISO 9001-2000 certifications than any bank in the region. Our technology arm, Mindscape, implemented BS 15000 compliant processes in December 2004.

Mashreqbank continues to vigorously pursue compliance with regulatory needs of the region. Several key initiatives were undertaken and, during 2004, Mashreqbank evaluated and selected a solution for the anti-money laundering system. This system is planned to be implemented during 2005.

TALENT MANAGEMENT

The most important factor in Mashreqbank's success had been its ability to attract the best talent and keep them motivated. When we talk about our capabilities and competitive advantages in the market, top on the list is our highly committed professional team which has time and again delivered superior performance. The challenge for us is to retain such high calibre professionals and to provide them opportunities for their personal growth. We have set-up a Career Development Unit


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within the Human Resources Division to demonstrate our commitment in helping them to achieve their career aspirations.

Mashreqbank is known to provide learning opportunities to its people through classroom education and also by entrusting them with higher responsibilities on the job with full empowerment. During the year 356 programs were conducted and 3553 professionals clocked 5246 mandays of training. Specialized certification programs were arranged in the areas of sales, service, operations and credit to enhance the skill level. The high potential people were assigned to key project teams to sharpen their skills and test their leadership abilities.

The recruitment of UAE citizens and their integration is an embedded national priority. As a large national institution, we are enjoined to embrace this important goal in a committed way. During the year, we have recruited almost 100 new Nationals to the bank. Attrition continues to be a challenge as overall supply and demand of skilled talent within the national pool is still imbalanced. Suffice to say, the Bank is committed to fully meeting its obligations in this important area.

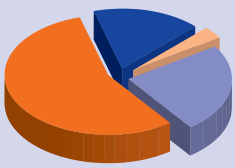
We have launched a “UAE National Training and Development Plan” which focuses on providing extensive classroom and on-the-job training to fresh recruits. “Mashreq Al Mustaqbal” a three-year Management Trainee program for high calibre Nationals was introduced.

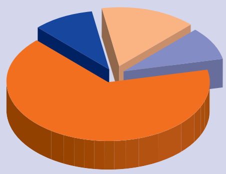
STRATEGIC PLAN 2005 – 2007

The constant change which has been part of today’s business environment necessitates that every corporation revaluate and, if necessary, reinvent its strategy, structure and systems every few years to align with changed market conditions. During the year, we embarked on one such major project and aligned it with our 3-year strategic planning exercise which was due for 2004. One of the most reputed management consulting firms worked with us to give us an outsider’s perspective and we conducted a thorough strategic analysis of our existing businesses in terms of our competitive position in the market, value drivers of each business and assessment of our capabilities. This

CLASSIFICATION OF ASSETS/LIABILITIES - DECEMBER 31,

	2004	2003
ASSETS		
Other Assets	**3.1%**	2.7%
Cash and Bank Balances	**24.1%**	28.2%
Advances	**55.9%**	56.2%
Investments	**16.9%**	12.9%
LIABILITIES		
Long term and other liabilities	**9%**	4.6%
Customer Deposits	**66.1%**	71.5%
Bank Deposits	**9.7%**	8.7%
Shareholders’ Equity	**15.2%**	15.2%





coupled with an overview of the market growth helped us to come up with a number of strategic initiatives to significantly improve the economic value of the bank in the next three years. One of the basic shifts in our approach came with the adoption of Economic Profit as a key measurement of value creation for the bank.

A 3-year strategy covering the period 2005-2007 has been developed and approved. The whole strategy development exercise was based on an intense analysis of the value drivers of each product and development of a value proposition with superior competitive advantage. Our business specific strategy covers not only the geographic scope, product participation and pricing strategies but also the source of competitive advantage. Improved Risk Management, superior Service Quality and Talent Management are the three major strategic priorities for which bank-wide plans, cutting across the business lines, are prepared and being deployed. Measurement systems to evaluate the success of the strategy and implementation efforts have been revamped and target KPIs for each strategic business initiative, customer initiative, talent management and the financials have been set.

If our 2004 performance was inspiring our plans for 2005 are exciting. We have all the resources it takes to deploy the strategic plan with precision. I have faith in the commitment and ability of our team and am confident of not only meeting our 2005 planned targets but also of delivering sustained performance during the next plan period.

Thank you.

Abdul-Aziz Abdulla Al-Ghurair
Chief Executive Officer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ساعة
صراف آلي

WORLDWIDE PRESENCE

UAE BRANCHES

ABU DHABI

Abu Dhabi (Main)
Tel: 02-6127201
Fax: 02-6269550

Al Khalidiya
Tel: 02-6937805
Fax: 02-6673883

Al Salam
Tel: 02-6967700
Fax: 02-6742482

Baniyas
Tel: 02-5048214
Fax: 02-5822115

Muroor
Tel: 02-4198219
Fax: 02-4481821

Mussaffa
Tel: 02-5555051
Fax: 02-5555052

Mushrif
Tel: 02-4079209
Fax: 02-4431717

Zayed the 2nd Street (Electra)
Tel: 02-6178797
Fax: 02-6214052

AL AIN

Al Ain (Main)
Tel: 03-7077220
Fax: 03-7645602

Al Ain (AIT)
Tel: 03-7077319
Fax: 03-7668896

AJMAN

Tel: 06-7017319
Fax: 06-7426690

DUBAI

Al Aweer
Tel: 04-3333727
Fax: 04-3333670

Al Khaleej
Tel: 04-7067710
Fax: 04-2723786

Burjuman
Tel: 04-5097323
Fax: 04-3522035

Hor Al Anz
Tel: 04-6082218
Fax: 04-2662887

Jebel Ali
Tel: 04-8081210
Fax: 04-8816628

Jumeirah
Tel: 04-4077623
Fax: 04-3452179

Khor Dubai
Tel: 04-3534000
Fax: 04-3531854

Qusais
Tel: 04-2175104
Fax: 04-2676347

Riqa
Tel: 04-2211120
Fax: 04-2233785

Sheikh Zayed Road
Tel: 04-3212573
Fax: 04-3212574

Suk Al Kabir
Tel: 04-2264178
Fax: 04-2266783

Zabeel
Tel: 04-3340313
Fax: 04-3367803

SHARJAH

Sharjah (Main)
Tel: 06-5118227
Fax: 06-5518980

King Abdul Aziz
Tel: 06-5077606
Fax: 06-5745334

Buhairah
Tel: 06-5742888
Fax: 06-5744446

Dhaid
Tel: 06-8027419
Fax: 06-8822416

FUJAIRAH

Fujairah
Tel: 09-2221100
Fax: 09-2226860

Dibba
Tel: 09-2444230
Fax: 09-2443831

Kalba
Tel: 09-2777430
Fax: 09-2778950

Khorfakkan
Tel: 09-2385295
Fax: 09-2387189

RAS AL KHAIMAH

Ras Al Khaimah (Main)
Tel: 07-2361644
Fax: 07-2363620

Al Nakheel
Tel: 07-2281695
Fax: 07-2281880

UMM AL QUWAIN

Tel: 06-7666948
Fax: 06-7664948

CUSTOMER SERVICES UNIT

ABU DHABI

Madinat Zayed Mall
Tel: 02-6163515
Fax: 02-6310776

DUBAI

Lamcy Plaza
Tel: 04-3348050
Fax: 04-3356313

SHARJAH

Sahara Mall
Tel: 06-5319550
Fax: 06-5319551

OVERSEAS BRANCHES

AFRICA

EGYPT

Cairo
Tel:(202) 5718203
Fax: (202) 5710423
SWIFT: MSHQ EG CA

ASIA

HONGKONG

Tel: (852) 25212938
Fax: (852) 25214289
SWIFT: MSHQ HK HH

INDIA

Mumbai
Tel: (91-22) 56327200
Fax: (91-22) 56301554
SWIFT: MSHQ IN BB

New Delhi
Tel: (91-11) 23350560 (5 Lines)
Fax: (91-11) 2357143/46
Tlx: 031-61965 MSHD IN

MIDDLE EAST

BAHRAIN

Tel: (973) 210114
Fax: (973) 213516
Tlx: 9565 MSHQ BN

QATAR (DOHA)

Doha (Main)
Tel: (974) 4413213 (4 lines)
Fax: (974) 4413880
Tlx: 4235 MSHQ DH

Ramada
Tel: (974) 4445100
Fax: (974) 4929288

TV Roundabout
Tel: (974) 4888622
Fax: (974) 4867207

EUROPE

UNITED KINGDOM

London
Tel: (44-207) 3824000/4013
Fax: (44-207) 2569717
SWIFT: MSHQ GB 2L

AMERICA

NEW YORK

Tel: (1-212) 8242832/34
Fax: (1-212) 5450918-19
SWIFT: MSHQ US 33

SUBSIDIARIES

UAE

Dubai
Oman Insurance Co. p.s.c.
(8 Branches in UAE)
H.O. Tel: 04-2624000
Fax: 04-2690110
Tlx: 46030 OIC EM

Osool - A Finance Co.
(10 Branches in UAE)
H.O. Tel: 04-2737000 (8 lines)
Fax: 04-7066966

Mindscape Information Technology LLC
Tel: 04-2714333
Fax: 04-2722985

Mashreq Securities LLC
Tel: 04-2223333 (30 lines)
Fax: 04-2226061

REPRESENTATIVE OFFICES

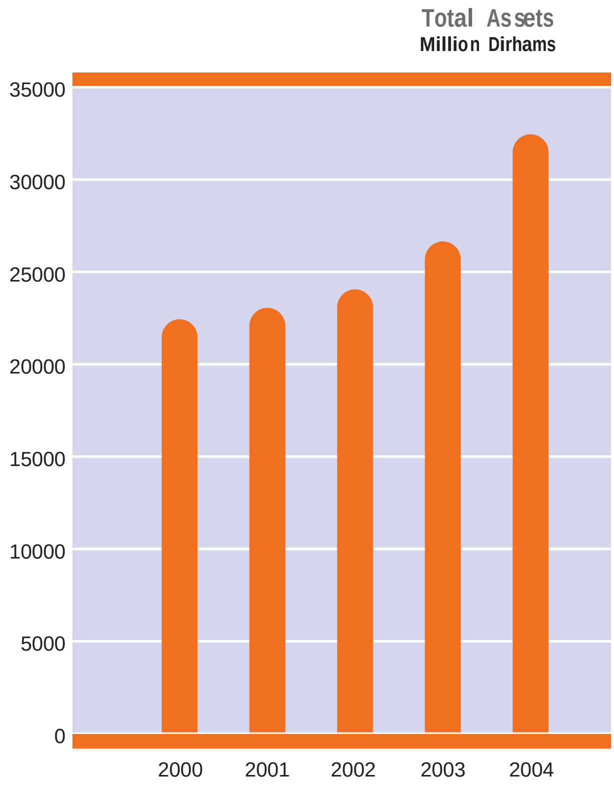
BANGLADESH

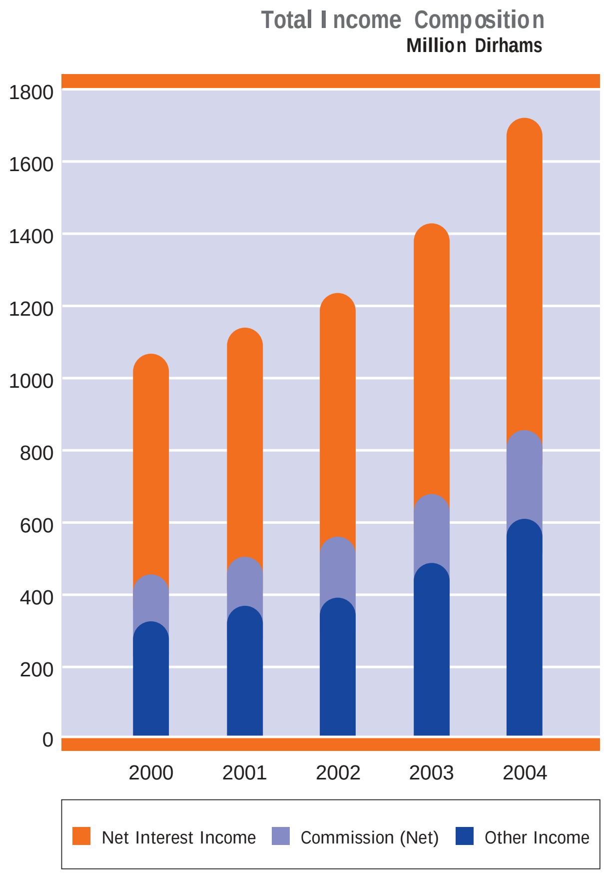
Dhaka Rep. Office
Tel: (880) 27115750
Fax: (880) 27124195
SWIFT: MSHQ BD DH

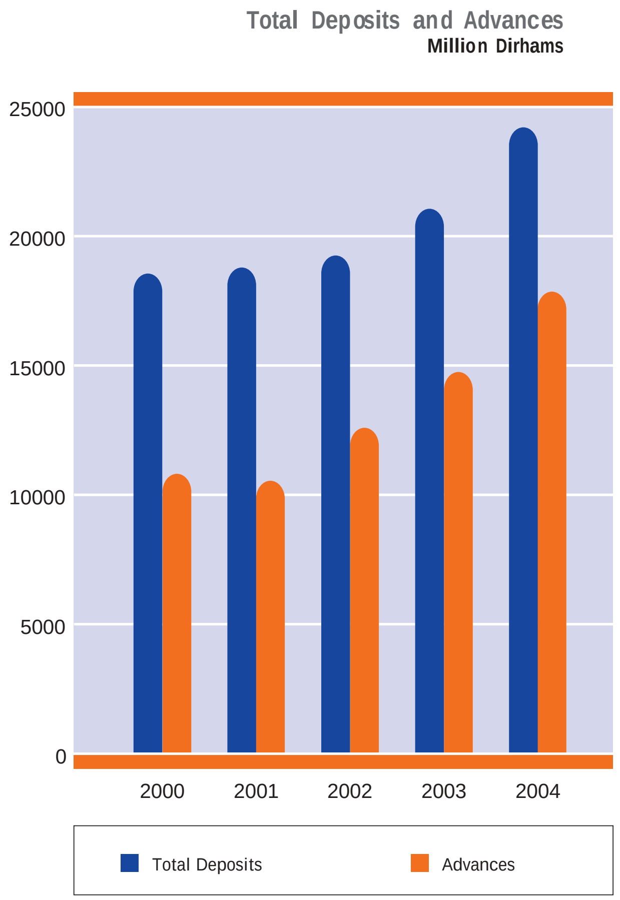
PAKISTAN

Karachi Rep. Office
Tel: (92-21) 5656830/32
Fax: (92-21) 5656872/73
SWIFT: MSHQ PK KA

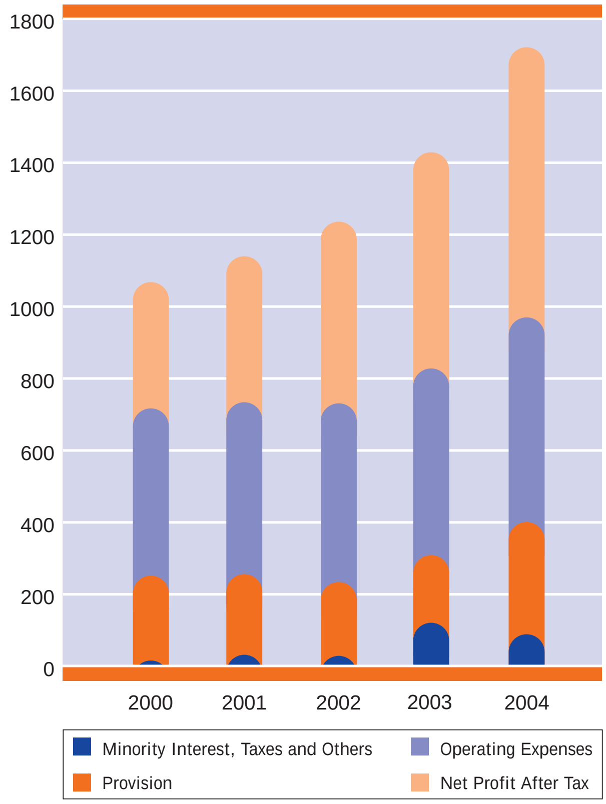
Financial Highlights



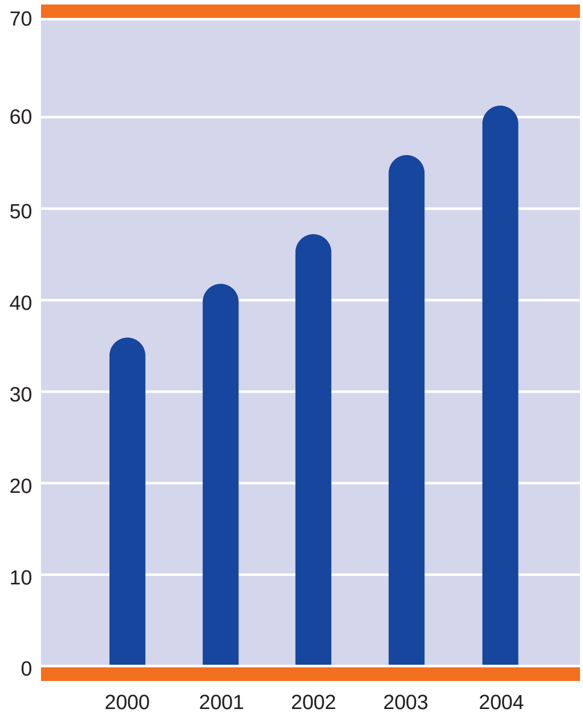




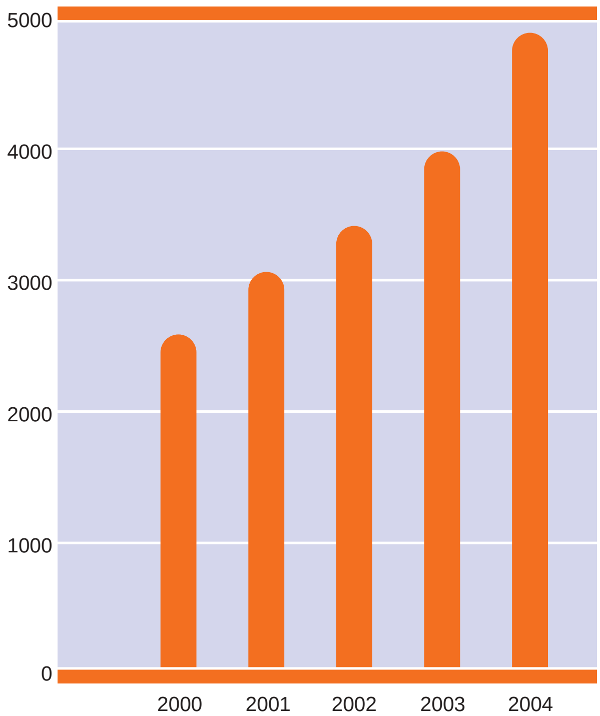
Growth Pattern of Operating Costs & Net Profits After Tax
Million Dirhams



Book Value per Share
Dirhams



Shareholders' Equity
Million Dirhams



INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

We have audited the accompanying consolidated balance sheet of **Mashreqbank psc** (the **"Bank"**) and **Subsidiaries** (collectively the **"Group"**) as of December 31, 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of the United Arab Emirates requirements.

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

Deloitte & Touche

Dubai
January 10, 2005

Saba Sindaha (Reg. No. 410)

CONSOLIDATED BALANCE SHEET

as of December 31

	Note	2004 AED'000	2004 US$'000	2003 AED'000	2003 US$'000
Assets					
Cash and balances with central banks	3	**3,058,500**	**832,698**	2,483,731	676,213
Deposits and balances due from banks	4	**4,649,506**	**1,265,861**	4,905,185	1,335,471
Loans and advances (net)	5	**17,845,387**	**4,858,532**	14,738,630	4,012,695
Interest receivable and other assets	6	**835,018**	**227,339**	537,870	146,439
Investment in securities	7	**5,240,765**	**1,426,835**	3,258,756	887,219
Investment property	8	**145,493**	**39,611**	140,942	38,372
Property and equipment	9	**174,159**	**47,416**	171,481	46,687
Total assets		**31,948,828**	**8,698,292**	26,236,595	7,143,096
Liabilities					
Customers' deposits	10	**21,107,058**	**5,746,544**	18,763,290	5,108,437
Deposits and balances due to banks	11	**3,090,409**	**841,386**	2,285,995	622,378
Insurance and life assurance funds	12	**189,143**	**51,495**	129,173	35,168
Medium-term floating rate notes	13	**1,101,900**	**300,000**	-	-
Long-term loans	14	**45,786**	**12,466**	51,678	14,070
Interest payable and other liabilities	15	**1,159,461**	**315,671**	800,311	217,891
Total liabilities		**26,693,757**	**7,267,562**	22,030,447	5,997,944
Minority interest	16	**404,803**	**110,211**	216,606	58,972
Shareholders' equity					
Share capital	17(a)	**787,450**	**214,388**	715,864	194,899
Statutory and legal reserves	17(b)	**393,984**	**107,265**	371,323	101,095
General reserve	17(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment		**(9,845)**	**(2,680)**	(23,624)	(6,432)
Cumulative changes in fair values and other reserves		**516,459**	**140,610**	241,622	65,783
Retained earnings		**2,495,867**	**679,517**	2,121,805	577,676
Proposed dividends	38	**354,353**	**96,475**	250,552	68,215
Total shareholders' equity		**4,850,268**	**1,320,519**	3,989,542	1,086,180
Total liabilities and shareholders' equity		**31,948,828**	**8,698,292**	26,236,595	7,143,096

The accompanying notes form an integral part of these consolidated financial statements.
The financial statements on pages 21 to 44 were approved by the Board of Directors and signed on its behalf by:

Abdulla Ahmed Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

for the year ended December 31

		2004		2003	
	Note	AED'000	US$'000	AED'000	US$'000
Interest income	19	1,423,612	387,588	1,109,633	302,105
Interest expense	20	(558,584)	(152,078)	(359,881)	(97,980)
Net interest income		865,028	235,510	749,752	204,125
Net commission income		245,701	66,894	190,833	51,956
Other income	21	610,293	166,156	488,053	132,876
Operating income		1,721,022	468,560	1,428,638	388,957
General and administrative expenses	22	(568,933)	(154,896)	(518,634)	(141,202)
Allowances for loans and advances and other financial assets	23	(312,470)	(85,072)	(187,757)	(51,119)
		839,619	228,592	722,247	196,636
Profit on disposal of certain foreign branches	37	-	-	7,253	1,975
Write-off of cumulative translation adjustment on disposal of subsidiary and certain foreign branches	37	(10,165)	(2,767)	(91,044)	(24,787)
Income before taxes and minority interest		829,454	225,825	638,456	173,824
Taxation		(4,083)	(1,112)	1,669	454
Net income before minority interest		825,371	224,713	640,125	174,278
Minority interest	16	(74,295)	(20,227)	(39,441)	(10,738)
Net income for the year		751,076	204,486	600,684	163,540
Earnings per share	24	AED 9.54	US$ 2.60	AED 7.63	US$ 2.08

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2004

	Share capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Cumulative changes in fair values and other reserves AED'000	Retained earnings AED'000	Proposed cash dividend AED'000	Proposed bonus shares AED'000	Total AED'000	Total US$'000
Balance at December 31, 2002	**715,864**	**366,770**	**312,000**	**(119,387)**	**127,365**	**1,762,349**	**214,759**	**-**	**3,379,720**	**920,152**
Changes in fair value of investments										
during the year	-	-	-	-	128,134	-	-	-	128,134	34,886
Net profit for the year	-	-	-	-	-	600,684	-	-	600,684	163,540
Transfer to statutory and legal reserves		4,553	-	-	-	(4,553)	-	-	-	-
Proposed cash dividend	-	-	-	-	-	(178,966)	178,966	-	-	-
Proposed bonus shares	-	-	-	-	-	(71,586)	-	71,586	-	-
Dividend paid	-	-	-	-	-	-	(214,759)	-	(214,759)	(58,470)
Overseas entities' translation adjustment	-	-	-	95,763	-	-	-	-	95,763	26,072
Cumulative adjustment in fair values										
of investment properties	-	-	-	-	(13,877)	13,877	-	-	-	-
Balance at December 31, 2003	**715,864**	**371,323**	**312,000**	**(23,624)**	**241,622**	**2,121,805**	**178,966**	**71,586**	**3,989,542**	**1,086,180**
Changes in fair value of investments										
during the year	**-**	**-**	**-**	**-**	**274,837**	**-**	**-**	**-**	**274,837**	**74,826**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**751,076**	**-**	**-**	**751,076**	**204,486**
Transfer to statutory and legal reserves	**-**	**22,661**	**-**	**-**	**-**	**(22,661)**	**-**	**-**	**-**	**-**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**(275,608)**	**275,608**	**-**	**-**	**-**
Proposed bonus shares	**-**	**-**	**-**	**-**	**-**	**(78,745)**	**-**	**78,745**	**-**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(178,966)**	**-**	**(178,966)**	**(48,725)**
Bonus shares distributed during the year	**71,586**	**-**	**-**	**-**	**-**	**-**	**-**	**(71,586)**	**-**	**-**
Overseas entities' translation adjustment	**-**	**-**	**-**	**13,779**	**-**	**-**	**-**	**-**	**13,779**	**3,752**
Balance at December 31, 2004	**787,450**	**393,984**	**312,000**	**(9,845)**	**516,459**	**2,495,867**	**275,608**	**78,745**	**4,850,268**	**1,320,519**

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31

	2004		2003	
	AED'000	**US$'000**	AED'000	US$'000
Cash flows from operating activities				
Net income for the year	**751,076**	**204,486**	600,684	163,540
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	**35,763**	**9,737**	35,791	9,744
Fair value adjustment – trading investments	**(24,034)**	**(6,544)**	(37,699)	(10,264)
Translation adjustment for the year	**3,614**	**984**	4,719	1,285
Allowance for impairment of loans and advances	**242,263**	**65,958**	179,102	48,762
Fair value adjustment – property investment	**(15,505)**	**(4,221)**	(35,441)	(9,649)
Loss/(gain) on sale of property and equipment	**1,765**	**481**	(7,235)	(1,970)
Cumulative translation adjustment written off	**10,165**	**2,767**	91,044	24,787
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	**(126,939)**	**(34,560)**	(86,768)	(23,623)
(Increase)/decrease in bank deposits maturing after three months	**(395,681)**	**(107,727)**	406,471	110,664
Increase in advances to customers	**(3,349,020)**	**(911,794)**	(2,335,723)	(635,917)
Increase in interest receivable and other assets	**(297,148)**	**(80,901)**	(34,386)	(9,362)
(Increase)/decrease in trading securities - net	**(1,496,700)**	**(407,487)**	24,979	6,801
Increase in customers' deposits	**2,343,768**	**638,107**	2,049,619	558,025
Increase in medium-term floating rate notes	**1,101,900**	**300,000**	-	-
Decrease in long-term loans	**(5,892)**	**(1,604)**	(5,387)	(1,467)
Increase/(decrease) in deposits and balances due to banks	**804,414**	**219,008**	(243,108)	(66,188)
Increase in insurance and life assurance funds	**59,970**	**16,327**	31,900	8,685
Increase in interest payable and other liabilities	**359,150**	**97,781**	33,438	9,104
Net cash provided by operating activities	**2,929**	**798**	672,000	182,957
Cash flows from investing activities				
Purchase of property and equipment	**(40,653)**	**(11,068)**	(38,826)	(10,571)
Proceeds from sale of property and equipment	**447**	**122**	20,704	5,637
Purchase of non-trading investments, net	**(175,484)**	**(47,777)**	(450,388)	(122,621)
Net cash used in investing activities	**(215,690)**	**(58,723)**	(468,510)	(127,555)
Cash flows from financing activities				
Dividend paid	**(178,966)**	**(48,725)**	(214,759)	(58,470)
Increase in minority interest	**188,197**	**51,238**	77,132	21,000
Net cash from/(used in) financing activities	**9,231**	**2,513**	(137,627)	(37,470)
(Decrease)/increase in cash and cash equivalents (Note 26)	**(203,530)**	**(55,412)**	65,863	17,932

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2004

1. Status and activities

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

At December 31, 2004, Mashreqbank psc Group (the “Group”) comprises the Bank and its subsidiaries as follows:

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

(a) During 2004, the Bank liquidated its wholly-owned subsidiary “Mashreq Asia Limited – Hong Kong” and transferred all of its assets and liabilities at net book value to Mashreqbank – Hong Kong branch, which was opened in 2004.

(b) During 2002, the Bank entered into an "agreement to sell" its Sri Lanka Branch and also agreed to transfer its investment in Pakistan Branches into a specially formed company in which Mashreqbank holds a minority stake and has no role in the day to day management of the new entity. These arrangements were finalized during 2003.

With effect from October 1, 2003, the Bank merged its Khartoum branch – Sudan with Blue Nile Bank (a banking company incorporated under the laws of Sudan) to form the Blue Nile Mashreq Bank, in which Mashreqbank held a minority stake and had no role in the day-to-day management of the new entity. However, the Bank sold its share in Blue Nile Mashreg Bank at book value during 2004.

The results of the operations of these Branches for the period from January 1, 2003 to the date of disposal are included in the consolidated income statement of the year ended December 31, 2003.

2. Significant accounting policies

(a) Accounting convention and basis of preparation

(i) The consolidated financial statements of Mashreqbank psc Group are prepared under the historical cost convention, except for certain financial instruments and investment property which are carried at fair value, in accordance with International Financial Reporting Standards (IFRS) (formerly referred to as International Accounting Standards) and Central Bank of the U.A.E. requirements as relates to the measurement and classification of properties acquired in settlement of debts.

(ii) Basis of consolidation

The consolidated financial statements include the financial statements of Mashreqbank psc and its subsidiaries. All significant inter-company balances and transactions between group entities are eliminated. Subsidiary companies are those companies in which the Bank owns, directly or indirectly, more than 50% of the voting share capital and/or exercises control.

(b) Trade and settlement date accounting

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

(c) Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

(d) Revenue recognition

Interest income and expense are recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest income and expense include the amortization of discount or premium using the effective interest rate method. When the interest or principal is in doubt, the recognition of income ceases. Commission and fee income are generally accounted for on the date the transaction arises. Recoveries in respect of loans fully provided are accounted for on a cash receipt basis.

Insurance premiums from general insurance activities are recognised in the accounting period in which they incept except for premium income from life assurance policies which is accounted for on a cash basis and premium income on marine cargo policies which is accounted for on the expected date of voyage. Insurance policy acquisition and maintenance costs are charged to expense as incurred.

(e) Foreign currency transactions

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

Monetary assets and liabilities of foreign branches and subsidiaries are translated into U.A.E. Dirhams at the rates of exchange ruling at year end, and non-monetary assets and liabilities are translated at historical rates of exchange. Income and expenses are translated at average rates of exchange during the year. The resulting differences are included under shareholders' equity as cumulative translation adjustment and are written off to the income statement on closure or disposal of the related branch or subsidiary.

(f) Loans and advances

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

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

(g) Investments

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

Non-trading investments
These are classified as follows:
- Held-to-maturity
- Available for sale

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

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

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

Available-for-sale
After initial recognition, investments which are classified as "available-for-sale" are re-measured at fair value. Unless unrealised gains and losses on re-measurement to fair value are part of an effective hedging relationship, they are reported as a separate component of

equity under the heading of cumulative changes in fair value, until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the period. In relation to investments, which are part of an effective hedging relationship, any gain or loss arising from a change in fair value is recognised directly in the income statement.

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

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

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

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

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

(h) Investment property

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

(i) Property and equipment

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

Buildings, equipment, office furniture and vehicles are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets as follows:-

Bank buildings	20 - 25 Years
Office equipment and vehicles	3 - 5 Years
Furniture, fixtures and computer mainframe hardware	7 Years
Improvements to freehold properties and others	5 - 10 Years

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.

(j) Repurchase transactions

Securities sold under agreements to repurchase ("repos") continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for trading or 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.

(k) Employees' end-of-service indemnity

Provision is made for estimated amounts required to cover employees' end-of-service indemnity at the balance sheet date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

(l) Pension and national insurance

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

(m) Taxes on income

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

(n) Offsetting of financial assets and liabilities

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

(o) Off balance sheet financial instruments

The Group utilizes forward foreign exchange contracts in the management of its foreign currency positions. All foreign exchange contracts are marked to market and the resultant gains and net losses are recognised in the income statement.

3. Cash and balances with central banks

	December 31, 2004	December 31, 2003
	AED '000	AED '000
Cash on hand	**132,967**	126,851
Balances with central banks:		
Current accounts and other balances	**485,500**	68,786
Statutory cash ratio requirements	**690,033**	563,094
Certificates of deposit with the Central Bank of the U.A.E.	**1,750,000**	1,725,000
	3,058,500	2,483,731

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

4. Deposits and balances due from banks

	December 31, 2004	December 31, 2003
	AED '000	AED '000
Demand	**98,184**	79,535
Overnight	**243,902**	270,434
Time	**4,307,420**	4,555,216
	4,649,506	4,905,185

The above represent balances due from:

	2004	2003
Banks abroad	**4,569,147**	4,285,059
Banks in the U.A.E.	**80,359**	620,126
	4,649,506	4,905,185

5. Loans and advances (net)

	December 31, 2004	December 31, 2003
	AED '000	AED '000
a)		
Overdrafts	**3,322,695**	2,514,708
Loans	**14,488,545**	12,120,987
Credit Cards	**578,290**	406,236
Originated loans	**239,219**	336,070
Others	**41,957**	27,653
	18,670,706	15,405,654
Less: Allowance for impairment	**(825,319)**	(667,024)
	17,845,387	14,738,630

Originated loans include debt securities amounting to AED 36.605 million (fair value of AED 36.605 million) [2003: AED 36.605 million (fair value of AED 36.605 million)], which were sold during the year 2003 under a repurchase agreement (“repo”).

	December 31, 2004 AED '000	December 31, 2003 AED '000
(b) Analysis by economic activities		
Manufacturing	**2,098,875**	1,860,176
Construction	**1,474,735**	1,155,561
Trade	**4,241,170**	3,095,997
Transport and communication	**638,469**	566,976
Services	**1,686,777**	1,631,675
Banks and Financial Institutions	**2,004,227**	1,408,776
Personal	**5,765,635**	4,777,454
Government/Public Sector	**439,516**	475,730
Others	**321,302**	433,309
	18,670,706	15,405,654
Less: Allowance for impairment	**(825,319)**	(667,024)
	17,845,387	14,738,630

(c) At December 31, 2004 the fair value of collateral held was AED 4,721 million (2003: AED 3,762 million).

(d) 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. Such accrual has increased gross loans and advances receivable. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted. The value of loans and advances, including fully provided accounts on which interest is not taken to income amounted to AED 463 million at December 31, 2004 (2003: AED 567 million).

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

	December 31, 2004 AED '000	December 31, 2003 AED '000
Balance at beginning of the year	**667,024**	1,337,845
Impairment allowance for the year	**280,101**	326,881
Amounts written off during the year	**(106,278)**	(941,485)
Recoveries during the year	**(15,528)**	(56,217)
Balance at end of year	**825,319**	667,024

The amount of impairment allowance for the year includes AED 38 million (2003: AED 148 million) of interest accrued on impaired loans and advances for litigation purposes which is not taken to income.

(f) Included in the total impairment allowance at the balance sheet date is AED 303 million (2003: AED 133 million) being allowance against losses which are likely to be present in any bank's loans and advances portfolio and which have not been specifically identified.

6. Interest receivable and other assets

	December 31, 2004 AED '000	December 31, 2003 AED '000
Interest receivable	**86,004**	68,098
Prepaid interest and expenses	**21,798**	22,161
Inward orders for payment pending	**-**	20,753
Taxes paid in advance	**47,461**	50,275
Clearing suspense	**1,442**	(698)
Positive fair value of derivatives	**387,472**	178,370
Insurance related receivables	**193,052**	118,252
Credit Cards interchange receivables	**44,983**	40,917
Others	**52,806**	39,742
	835,018	537,870

7. Investment in securities

	December 31, 2004	2003
	AED '000	AED '000
Securities		
Trading portfolio		
Debt securities	**1,369,520**	773,610
Equities	**171,343**	3,118
Discretionary managed fund	**1,107,732**	471,143
Other investments	**287,094**	167,084
	2,935,689	1,414,955
Available-for-sale		
Debt securities	**686,380**	428,508
Equities	**1,129,991**	726,185
Others	**13,043**	6,709
	1,829,414	1,161,402
Held-to-maturity		
Debt securities	**475,662**	682,399
Total	**5,240,765**	3,258,756

The fair value of investments classified under held-to-maturity amounted to AED 476.054 million as of December 31, 2004 (2003: AED 680.591 million).

The above investments include debt securities aggregating to AED 583.213 million (2003: AED 562.621 million) [held-for-trading at fair value of AED 356.268 million (2003: AED 337.741 million), available-for-sale at fair value of AED 80.025 million (2003: AED 77.959 million) and held-to-maturity at amortized cost of AED 146.920 million - at fair value of AED 146.920 million (2003: AED 146.920 million - at fair value of AED 146.920 million)] sold under a repurchase agreement ("repo") and which are fully substitutable (Note 11).

8. Investment property

	December 31, 2004	2003
	AED '000	AED '000
Interest in buildings and freehold land - January 1,	**140,942**	112,099
Sold during the year	**(10,954)**	(6,598)
Change in fair value during the year	**15,505**	35,441
	145,493	**140,942**

9. Property and equipment

	Properties for own use AED '000	Properties 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, 2003	143,667	17,351	125,681	105,728	-	392,427
Additions	17	-	13,358	10,951	16,327	40,653
Disposals/write-offs	(1,673)	(815)	(11,666)	(31,649)	-	(45,803)
At December 31, 2004	**142,011**	**16,536**	**127,373**	**85,030**	**16,327**	**387,277**
Accumulated depreciation						
At December 31, 2003	65,882	-	88,163	66,901	-	220,946
Charge for the year	4,842	-	15,439	15,482	-	35,763
Disposals/write-offs	(1,673)	-	(11,420)	(30,498)	-	(43,591)
At December 31, 2004	**69,051**	**-**	**92,182**	**51,885**	**-**	**213,118**
Carrying amount						
At December 31, 2004	**72,960**	**16,536**	**35,191**	**33,145**	**16,327**	**174,159**
At December 31, 2003	77,785	17,351	37,518	38,827	-	171,481

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 98.8 million (2003: AED 73.93 million).

10. Customers' deposits

	December 31, 2004 AED '000	2003 AED '000
Current and other accounts	**3,570,057**	2,718,622
Saving accounts	**412,415**	414,503
Time deposits	**17,124,586**	15,630,165
	21,107,058	18,763,290

11. Deposits and balances due to banks

	December 31, 2004 AED '000	2003 AED '000
Demand	**350,553**	214,212
Overnight	**240,737**	136,798
Time	**2,499,119**	1,934,985
	3,090,409	2,285,995

The above represent borrowings from:

	2004 AED '000	2003 AED '000
Banks in the U.A.E.	**119,738**	249,598
Banks abroad	**2,970,671**	2,036,359
Overseas central banks	**-**	38
	3,090,409	2,285,995

Borrowings from banks abroad include the following:

(a) Counter-party liability relating to a 3-year repurchase agreement ("repo") for AED 367.3 million (US$ 100 million) maturing in September 2006. The loan carries a floating rate of interest that is fixed by reference to the 3 months USD-LIBOR-BBA (same in 2003).

(b) Counter-party liability relating to a 3-month repurchase agreement ("repo") for AED 147.434 million (US$ 40.14 million) maturing in February 2005 (2003 matured in February 2004). The loan carries an interest rate fixed by reference to the 3-month LIBOR.

Borrowings from banks abroad for 2004 included an amount of AED 550.95 million (US$ 150 million) being a loan obtained through a syndicate of banks. The loan carries a floating rate of interest, which is fixed by reference to a 6 months LIBOR rate.

12. Insurance and life assurance funds

	Outstanding claims AED'000	Unearned premium reserve AED'000	Additional reserve AED'000	Life assurance fund AED'000	December 31, 2004 Total AED'000	2003 Total AED'000
January 1,	34,103	64,917	18,747	11,406	**129,173**	97,273
Increase	25,658	23,116	1,000	10,196	**59,970**	31,900
December 31,	**59,761**	**88,033**	**19,747**	**21,602**	**189,143**	129,173

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

13. Medium-term floating rate notes

During the year 2004, Mashreqbank psc has 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 with JP Morgan Chase Bank.

Under the EMTN programme, Mashreqbank psc has issued first tranche of US$ 300 million (AED 1,101.9 million) Floating Rate Notes in February 2004 due on February 27, 2009 at discount of 0.242%. The notes bear an interest rate equal to the 3 months LIBOR plus 0.55%.

14. 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.

15. Interest payable and other liabilities

	December 31,	
	2004	2003
	AED '000	AED '000
Accrued interest payable	**122,159**	87,309
Interest and income received in advance	**74,154**	36,734
Provision for staff terminal benefits	**72,254**	68,200
Provision for taxation	**41,799**	46,087
Pay orders issued	**43,392**	36,139
Negative fair value of derivatives	**410,876**	190,616
Credit Cards interchange fee income	**17,027**	11,033
Insurance premium collected in advance	**174,525**	105,224
Accrued expenses	**95,868**	95,379
Others	**107,407**	123,590
	1,159,461	800,311

16. Minority interest

	December 31,	
	2004	2003
	AED '000	AED '000
Balance, January 1,	**216,606**	139,474
Dividends	**(9,087)**	(9,098)
Share in cumulative changes in fair values	**122,989**	46,789
Share of net income for the year	**74,295**	39,441
	404,803	216,606

17. Shareholders' equity

(a) Share capital

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

During 2004 the proposed bonus shares, of 1 share 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, 2004, 78,745,018 ordinary shares of AED 10 each (2003: 71,586,380 ordinary shares of AED 10 each) were issued and 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.

18. Contra accounts and commitments

	December 31, 2004 AED '000	2003 AED '000
(a) Contra accounts (memoranda)		
Guarantees	**9,423,370**	7,488,141
Letters of credit	**3,517,497**	2,589,636
Acceptances	**831,786**	640,968
	13,772,653	10,718,745
(b) Derivative financial instruments (Note 33)	**33,210,054**	9,452,725
(c) Other commitments		
Uncalled capital on investments held	**2,023**	4,569
Total contra account and commitments (a + b + c)	**46,984,730**	20,176,039

(d) Contra accounts – maturity profile

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

2004	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
Guarantees	**5,045,597**	**1,424,150**	**489,019**	**2,464,604**	**9,423,370**
Letters of credit	**2,149,312**	**936,856**	**431,329**	**-**	**3,517,497**
Acceptances	**611,741**	**207,364**	**12,681**	**-**	**831,786**
Total	**7,806,650**	**2,568,370**	**933,029**	**2,464,604**	**13,772,653**

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

19. Interest income

	Year ended December 31, 2004 AED '000	2003 AED '000
Loans and advances	**1,088,427**	911,039
Central Banks	**15,455**	18,887
Banks	**235,098**	108,069
Investments	**84,632**	71,638
	1,423,612	1,109,633

20. Interest expense

	Year ended December 31,	
	2004	2003
	AED '000	AED '000
Customers' deposits	397,591	264,813
Central Banks	-	18,979
Banks	160,993	76,089
	558,584	359,881

21. Other income

	Year ended December 31,	
	2004	2003
	AED '000	AED '000
Net realized investment gains	**104,646**	18,352
Fair value adjustments of trading investments	**24,034**	37,699
Dividends income	**23,453**	20,810
Income from investment property	**19,930**	43,125
Credit Card related fee income	**81,644**	59,935
Fees and charges on banking services	**158,782**	148,854
Foreign exchange gains (net)	**62,148**	62,900
Insurance underwriting profit	**93,953**	77,365
(Loss)/gain on sale of property and equipment	**(1,765)**	7,235
Rental income from investment property (net)	**4,064**	3,533
Others	**39,404**	8,245
	610,293	488,053

22. General and administrative expenses

	Year ended December 31,	
	2004	2003
	AED '000	AED '000
Salaries and employee related expenses	**346,232**	305,930
Depreciation on property and equipment	**35,763**	35,791
Other general and administration expenses	**186,938**	176,913
	568,933	518,634

Salaries and employee related expenses include AED 60 million (2003: AED 52.4 million) incentive bonus to employees and executive officers of the Group.

The number of employees of the Group was 1,913 as of December 31, 2004 (1,834 as of December 31, 2003).

23. Allowances for loans and advances and other financial assets

	2004			
	Retail AED'000	**Corporate and others AED'000**	**Non-specific [Note 5 (f)] AED'000**	**Total AED'000**
Provision for impaired loans and advances	**6,560**	**114,944**	**120,759**	**242,263**
Provision for investments	**-**	**5,848**	**-**	**5,848**
Write-off of impaired loans to income statement	**137,181**	**4,176**	**-**	**141,357**
Recovery of loans previously written off	**(62,669)**	**(14,329)**	**-**	**(76,998)**
Total	**81,072**	**110,639**	**120,759**	**312,470**

	2003			
	Retail AED'000	Corporate and others AED'000	Non-specific [Note 5(f)] AED'000	Total AED'000
Provision for impaired loans and advances	50,692	103,283	25,127	179,102
Provision for investments and others	-	20,878	-	20,878
Write-off of impaired loans to income statement	57,505	2,102	-	59,607
Recovery of loans previously written off	(46,148)	(25,682)	-	(71,830)
Total	62,049	100,581	25,127	187,757

24. 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:

	Year ended December 31,	
	2004	2003
	AED '000	AED '000
Net income for the year (AED'000)	**751,076**	600,684
Number of ordinary shares outstanding	**78,745,018**	78,745,018
Earnings per share (AED)	**9.54**	7.63

The number of ordinary shares outstanding as of December 31, 2003 has been adjusted to reflect the bonus shares issued during 2004 [Note 17 (a)].

25. Foreign restricted assets

Net assets equivalent to AED 48.723 million as of December 31, 2004 (2003: AED 43.647 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.

26. 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:

	December 31,	
	2004	2003
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	**3,058,500**	2,483,731
Deposits and balances due from banks	**4,649,506**	4,905,185
	7,708,006	7,388,916
Less: Deposits with central banks for regulatory purposes	**(690,033)**	(563,094)
Less: Deposits maturing after 3 months	**(1,248,773)**	(853,092)
	5,769,200 (a)	5,972,730 (b)
Decrease in cash and cash equivalents – 2004 [(a) – (b)]	**(203,530)**	

	December 31,	
	2003	2002
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	2,483,731	3,079,178
Deposits and balances due from banks	4,905,185	4,563,578
	7,388,916	7,642,756
Less: Deposits with central banks for regulatory purposes	(563,094)	(476,326)
Less: Deposits maturing after 3 months	(853,092)	(1,259,563)
	5,972,730 (a)	5,906,867 (b)
Increase in cash and cash equivalents – 2003 [(a) – (b)]	65,863	

27. Related party transactions

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

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

	December 31,	
	2004	2003
	AED '000	AED '000
Advances to customers	**277,454**	379,806
Deposits from customers	**568,305**	710,767
Letters of credit, guarantees and acceptances	**989,661**	753,932

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

Interest income	**12,559**	11,460
Interest expense	**14,293**	10,748
Other income	**33,917**	31,450

28. Interest rate sensitivity – 2004

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at December 31, 2004 was as follows:

	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	Non-interest sensitive AED'000	Total AED'000
Assets							
Cash and balances with central banks	1,783,234	-	-	-	-	1,275,266	3,058,500
Deposits and balances due from banks	3,860,498	643,038	20,692	23,067	6,649	95,562	4,649,506
Loans and advances (net)	12,353,996	1,589,651	1,115,854	2,536,163	242,421	7,302	17,845,387
Interest receivable and other assets	-	-	-	-	-	835,018	835,018
Investments in securities	1,332,632	877,304	98,796	54,469	3,971	2,873,593	5,240,765
Investment property	-	-	-	-	-	145,493	145,493
Property and equipment	-	-	-	-		174,159	174,159
Total assets	**19,330,360**	**3,109,993**	**1,235,342**	**2,613,699**	**253,041**	**5,406,393**	**31,948,828**
Liabilities and shareholders' funds							
Customers' deposits	10,349,843	1,637,330	1,650,737	1,859,630	3,331	5,606,187	21,107,058
Deposits and balances due to banks	2,000,547	601,586	200,642	-	-	287,634	3,090,409
Insurance and life assurance funds	-	-	-	-	-	189,143	189,143
Medium-term floating rate notes	1,101,900	-	-	-	-	-	1,101,900
Long-term loans	-	-	-	-	-	45,786	45,786
Interest payable and other liabilities	-	-	-	-	-	1,159,461	1,159,461
Minority interest	-	-	-	-	-	404,803	404,803
Proposed bonus shares	-	-	-	-	-	78,745	78,745
Proposed dividend	-	-	-	-	-	275,608	275,608
Shareholders' funds	-	-	-	-	-	4,495,915	4,495,915
Total liabilities and shareholders' funds	**13,452,290**	**2,238,916**	**1,851,379**	**1,859,630**	**3,331**	**12,543,282**	**31,948,828**
On Balance Sheet gap	5,878,070	871,077	(616,037)	754,069	249,710	(7,136,889)	-
Off Balance Sheet gap	(62,567)	(25,365)	14,949	72,983	-	-	-
Cumulative interest rate sensitivity gap-2004	**5,815,503**	**6,661,215**	**6,060,127**	**6,887,179**	**7,136,889**	-	-
Cumulative interest rate sensitivity gap - 2003	5,684,698	4,485,590	4,882,435	7,263,393	6,818,403	-	-

The effective interest rate* on bank placements and certificates of deposits with central bank was 1.63% (2003: 1.46%), on loans and advances 6.39% (2003: 6.88%), on customer deposits 1.82% (2003:1.62%) and on bank borrowings 2.06% (2003:1.84%).

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

29. Maturities of assets and liabilities - 2004

	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	Total AED'000
Assets						
Cash and balances with central banks	3,058,500	-	-	-	-	3,058,500
Deposits and balances due from banks	3,400,733	266,509	544,792	430,823	6,649	4,649,506
Loans and advances - net	8,483,431	1,722,158	1,952,319	4,898,854	788,625	17,845,387
Interest receivable and other assets	85,891	749,127	-	-	-	835,018
Investments in securities	2,935,689	-	1,829,414	434,961	40,701	5,240,765
Investment property	-	-	-	3,007	142,486	145,493
Property and equipment	-	-	-		174,159	174,159
Total assets	**17,964,244**	**2,737,794**	**4,326,525**	**5,767,645**	**1,152,620**	**31,948,828**
Liabilities and shareholders' funds						
Customers' deposits	15,867,699	1,679,943	1,689,390	1,870,026	-	21,107,058
Deposits and balances due to banks	1,775,382	40,373	200,642	1,074,012	-	3,090,409
Insurance and life assurance funds	-	-	-	189,143	-	189,143
Medium-term floating rate notes	-	-	-	1,101,900	-	1,101,900
Long-term loans	-	-	-	-	45,786	45,786
Interest payable and other liabilities	915,653	118,766	106,570	13,281	5,191	1,159,461
Minority interest	-	-	-	-	404,803	404,803
Proposed bonus shares	-	-	-	-	78,745	78,745
Proposed dividend	275,608	-	-	-	-	275,608
Shareholders' funds	-	-	-	-	4,495,915	4,495,915
Total liabilities and shareholders' equity	**18,834,342**	**1,839,082**	**1,996,602**	**4,248,362**	**5,030,440**	**31,948,828**

Maturity profile 2003:

Total assets	14,933,362	1,906,178	2,956,399	5,701,957	738,699	26,236,595
Total liabilities and shareholders' equity	16,003,978	2,518,241	1,713,338	1,293,948	4,707,090	26,236,595

Maturities of assets and liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.

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

Geographic regions

	December 31, 2004			December 31, 2003		
	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000
U.A.E.	**18,821,967**	**25,709,039**	**12,871,070**	15,273,671	22,346,824	10,140,052
Other Middle East countries	**3,646,239**	**2,336,795**	**363,022**	3,151,597	1,814,721	170,852
O.E.C.D.	**5,569,845**	**2,757,562**	**387,246**	4,750,750	1,346,540	313,032
Others	**3,910,777**	**1,145,432**	**151,315**	3,060,577	728,510	94,809
Total	**31,948,828**	**31,948,828**	**13,772,653**	26,236,595	26,236,595	10,718,745

Industry Sector

	December 31, 2004			December 31, 2003		
	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000	Assets AED'000	Liabilities AED'000	Off Balance Sheet items AED'000
Government and Public Sector	**1,250,160**	**1,866,040**	**105,378**	806,538	2,153,228	21,492
Commercial & Business	**10,275,987**	**8,864,918**	**10,344,188**	8,253,756	6,778,676	7,024,152
Personal	**5,666,106**	**8,691,314**	**25,815**	4,179,535	8,074,330	55,012
Financial Institutions	**11,518,851**	**6,173,826**	**3,191,894**	10,374,472	4,492,361	3,563,076
Others	**3,237,724**	**6,352,730**	**105,378**	2,622,294	4,738,000	55,013
Total	**31,948,828**	**31,948,828**	**13,772,653**	26,236,595	26,236,595	10,718,745

31. Segmental information

2004

	Retail AED'000	Corporate AED'000	Financial Institutions AED'000	Treasury & Investment Banking AED'000	Insurance AED'000	Head Office and Others AED'000	Total AED'000
Net interest income	505,717	246,795	50,247	23,398	1,150	37,721	865,028
Other income	181,010	224,525	87,548	108,714	248,568	5,629	855,994
Total operating income	**686,727**	**471,320**	**137,795**	**132,112**	**249,718**	**43,350**	**1,721,022**
Write off of cumulative translation adjustment on disposal of subsidiary							**(10,165)**
							1,710,857
General and administrative expenses							**(568,933)**
Allowances for loans and advances and other financial assets							**(312,470)**
Income before taxes and minority interest							**829,454**
Taxation							**(4,083)**
Net income before minority interest							**825,371**
Minority interest							**(74,295)**
Net income for the year							**751,076**
Segment Assets	**5,849,060**	**10,899,120**	**4,262,300**	**8,396,900**	**1,416,870**	**1,124,578**	**31,948,828**
Segment Liabilities	**5,794,620**	**15,780,400**	**1,438,500**	**819,527**	**445,060**	**2,415,650**	**26,693,757**

2003

	Retail AED'000	Corporate AED'000	Financial Institutions AED'000	Treasury & Investment Banking AED'000	Insurance AED'000	Head Office and Others AED'000	Total AED'000
Net interest income	464,766	202,581	29,454	24,888	457	27,606	749,752
Other income	158,652	171,332	72,361	89,611	151,059	35,871	678,886
Total operating income	**623,418**	**373,913**	**101,815**	**114,499**	**151,516**	**63,477**	**1,428,638**
Profit on disposal of certain foreign branches							7,253
Write off of cumulative translation adjustment on disposal of certain foreign branches							(91,044)
							1,344,847
General and administrative expenses							(518,634)
Allowances for loans and advances and other financial assets							(187,757)
Income before taxes and minority interest							**638,456**
Taxation							1,669
Net income before minority interest							**640,125**
Minority interest							(39,441)
Net income for the year							**600,684**
Segment Assets	5,143,431	9,075,310	2,394,240	7,931,200	778,109	914,305	26,236,595
Segment Liabilities	4,603,200	14,645,215	754,600	975,800	275,527	776,105	22,030,447

32. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Differences can arise between carrying values and fair value estimates as a result of changes in market conditions.

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

33. 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, or market risk.

				December 31, 2004				
				Notional amount by term of maturity				
Derivative Financial instruments	**Positive fair value AED'000**	**Negative fair value AED'000**	**Notional amount AED'000**	**Up to 3 months AED'000**	**3 months to 6 months AED'000**	**6 months to 1 year AED'000**	**One year to 5 years AED'000**	**Over 5 years AED'000**
Forward foreign exchange contracts	140,183	154,802	14,648,006	10,763,590	779,609	2,197,774	907,034	-
Foreign exchange options (bought)	-	47,281	7,327,317	575,060	1,362,845	5,389,412	-	-
Foreign exchange options (sold)	47,281	-	7,327,317	575,060	1,362,845	5,389,412	-	-
Interest rate swaps	112,377	112,713	801,426	10,881	24,040	9,998	676,135	80,372
Interest rate swaps (callable)	85,691	85,691	1,961,014	-	-	268,129	1,115,453	577,432
Caps bought	-	165	289,082	-	-	-	61,082	228,000
Caps sold	165	-	289,082	-	-	-	61,082	228,000
Futures contracts purchased (customers)	1,039	-	38,832	32,725	6,107	-	-	-
Futures contracts sold (customers)	-	736	60,923	60,923	-	-	-	-
Futures contracts sold (bank)	-	1,039	38,832	32,725	6,107	-	-	-
Futures contracts purchased (bank)	736	-	60,923	60,923	-	-	-	-
Credit derivative option sold	-	8,449	367,300	367,300	-	-	-	-
Total December 31, 2004	**387,472**	**410,876**	**33,210,054**	**12,479,187**	**3,541,553**	**13,254,725**	**2,820,786**	**1,113,804**
Total December 31, 2003	178,370	190,014	9,452,725	5,213,462	1,651,900	214,409	1,323,125	1,049,829

34. Risk management

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

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 sector limits.

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

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

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 salary multiples, bank statements, age, residency, etc.) 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).

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 their creditworthiness.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the CPC or the Bank's Chief Executive Officer under the supervision of the Board. 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 also 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. The Bank uses an international risk rating system to differentiate between the qualities of various sovereign risks.

Credit review procedures and loan classification

The Bank's credit review department (the CRD) 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 eight risk ratings out of which 1-4 are performing grades and 5-8 are classified or criticized grades. Current risk rating system is under review in order to meet the Basel II requirements of sufficient granularity.

Once an account is overdue for 180 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 180 days past their due date while credit card balances are written off when they are 150 days past their due date.

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. 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.

Assets & Liability Committee (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 Bank uses a interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The members of ALCO comprise the Chief Executive Officer, the Head of Commercial Banking, the Head of Retail Banking, the Head of Treasury & Capital Markets, the Head of Credit Risk Management and the Chief Financial Officer of the Bank.

Liquidity risk management

The Bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and Bank's internal guidelines. The Central Bank of the U.A.E. sets cash ratio requirements on overall deposits ranging between 1.0 percent and 14.0 percent according to the tenor of the deposits. The Central Bank of the U.A.E. also imposes a mandatory 1:1 utilization ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E.. Stable funds are defined by the Central Bank of the U.A.E. to mean free own funds, inter-bank deposits with a remaining term of more than six months and stable customer deposits. To guard against liquidity risk, the Bank has diversified its funding sources and manages its assets with liquidity in mind, seeking to maintain a balance of cash, cash equivalents and readily marketable securities. ALCO sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

Market risk management

Market risk is primarily composed of price risk and arises out of treasury, trading and investment activities. Price risk includes earning impact owing to level and volatility of interest rates, foreign exchange rates, derivatives prices and debt/equity prices.

The Bank carries a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange and derivatives trading for the account of the Bank is managed by a proprietary trading limit with a stop loss limit set by the Assets and Liabilities Committee.

Interest rate risk management

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

The Bank uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by ALCO. Since most of the Bank's assets and liabilities are floating rate, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Open foreign exchange positions

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Bank does maintain a long US dollar position within limits approved by the Bank's Assets & Liabilities Committee (ALCO). As of December 31, 2004, the Bank's other net foreign exchange exposure was not significant except for AED 209 million long position in Qatari Riyals (2003: AED 36 million) and AED 18 million long position in Pakistani Rupees (2003: AED 27 million) and AED 55 million long in Indian Rupees (2003: Nil).

35. Fiduciary activities

Assets held by the Bank in trust, in a fiduciary and custodial capacity on behalf of its customers are not included in these financial statements. These include assets held in a fiduciary capacity for a related party as of December 31, 2004 of AED 234.946 million (2003: AED 158.503 million).

36. Capital adequacy

		December 31,	
		2004	2003
		AED '000	AED '000
Capital base	(a)	**4,877,406**	4,020,505
Risk weighted assets:			
On-balance sheet assets		**20,014,697**	16,747,724
Off-balance sheet assets		**7,305,286**	5,120,371
Total risk-weighted assets	(b)	**27,319,983**	21,868,095
Capital adequacy ratio [(a)/(b) x 100]		**17.85%**	18.4%

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

37. Sale of certain overseas branches

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

a) Mashreqbank – Colombo branch (Sri Lanka)

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

b) Mashreqbank – Lahore and Karachi branches (Pakistan)

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

c) Mashreqbank – Khartoum branch (Sudan)

Effective from October 1, 2003 the Bank entered into an amalgamation agreement with Blue Nile Bank to form the "Blue Nile Mashreg Bank", in which Mashreqbank holds a minority stake of 19.5%. However, the Bank sold its share in Blue Nile Mashreg Bank at book value during 2004.

The results of the above foreign branches operations for the period from January 1, 2003 to date of disposal were not material to the Group and as such have not been disclosed separately in the accompanying financial statements.

The net assets of the above foreign branches at the dates of disposal (AED 84.9 million) and at December 31, 2002 (AED 97.6 million) were not material to the Group. The consideration obtained resulted in a net gain on disposal of AED 7.25 million in 2003. No tax charge or credit arose from the disposal transactions.

A cumulative translation adjustment of AED 91.044 million, previously charged to equity, has been reclassified to the income statement for the year ended December 31, 2003 as a result of the disposal of the above foreign branches.

(d) During 2004, the Bank liquidated its wholly-owned subsidiary "Mashreq Asia Limited – Hong Kong" and transferred all of its assets and liabilities at net book value to Mashreqbank – Hong Kong branch, which was opened in 2004.

A cumulative translation adjustment of AED 10.165 million, previously charged to equity, has been reclassified to the current year's income statement as a result of the disposal of the above foreign subsidiary.

38. Proposed dividends

	December 31,	
	2004	2003
	AED '000	AED '000
Cash dividend of AED 3.5 per share (2003: AED 2.5 per share)	**275,608**	178,966
Bonus shares – 1 share for each 10 shares	**78,745**	71,586
	354,353	250,552
Dividends per share (AED)	**4.5**	3.5

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

39. Comparative figures

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

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