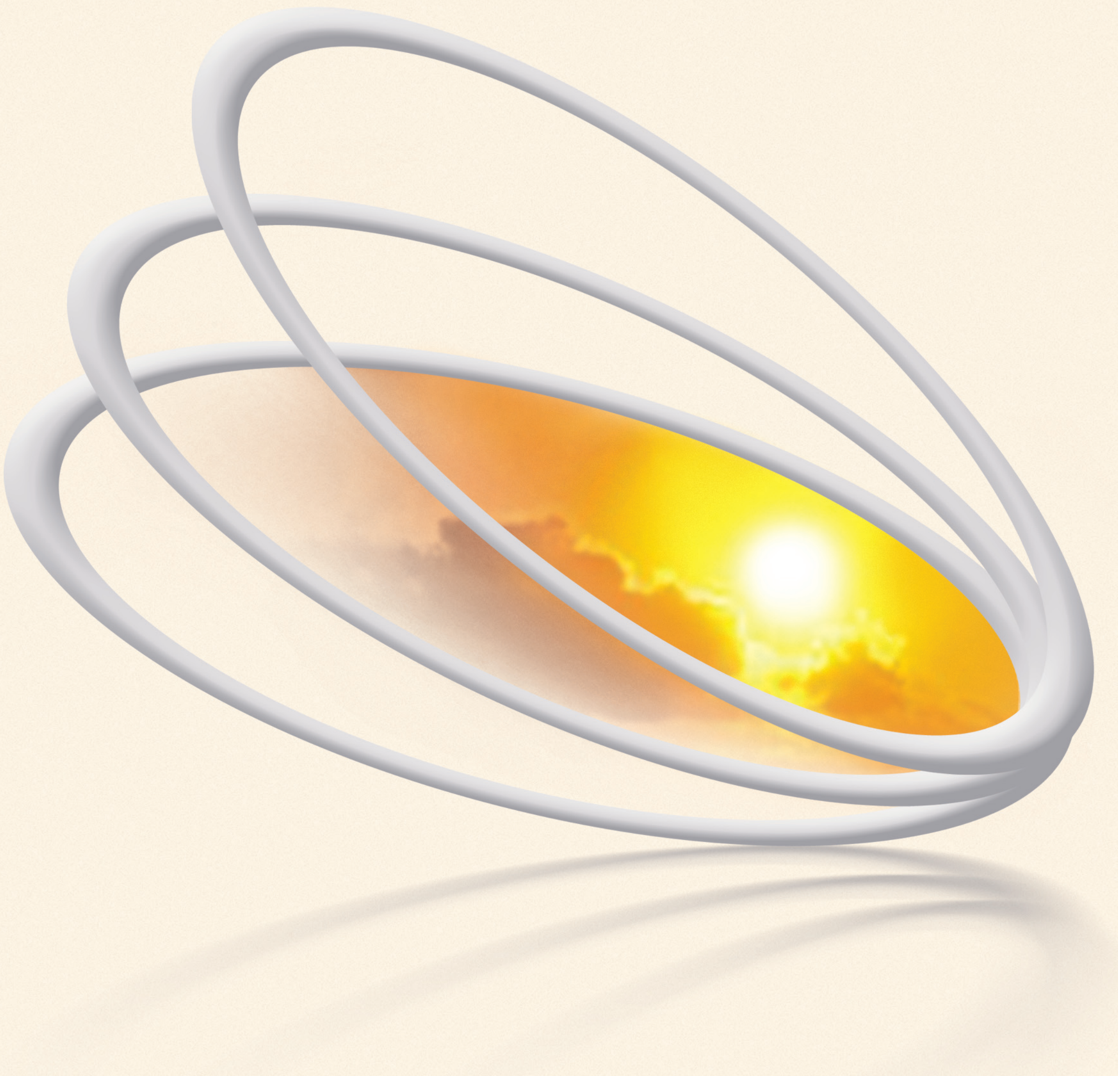
ANNUAL REPORT
2005



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 (Late) Sheikh Maktoum Bin Rashid Al Maktoum

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 Mohammed Bin Rashid Al Maktoum

Vice President & Prime Minister of the United Arab Emirates

and Ruler of Dubai

Our Mission

In pursuit of :

- Quality People
- Quality Service
- Quality Earnings

MISSION 3Qs

It is our obsession with Quality that led us to dedicate our efforts for the next 3 years in pursuit of MISSION 3Qs 'Quality People, Quality Service and Quality Earnings.'

Contents

Mashreqbank psc established in 1967
Head Office: P.O. Box 1250, Dubai, United Arab Emirates Tel: 2223333, 2737222, 2286947
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Mr. Abdulla Bin Ahmed Al Ghurair

Chairman

Board Of Directors

Chairman

Mr. Abdulla Bin Ahmed Al Ghurair

Vice-Chairman

Mr. Ali Rashid Ahmed Loutah

Director & Chief Executive Officer

Mr. Abdul Aziz Abdulla Al Ghurair

Directors

H.E. Sheikh Hamad Suhaim Hamad Al Thani

Mr. Abdulla Nasser Bin Huwaillel

Mr. Mohammed Abdulla Al Ghurair

Mr. Abdulla Mohamed Ibrahim Obaid-Ullah

Chairman's Report

Books for 2005 were barely closed as the news of the passing away of His Highness Sheikh Maktoum Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai was received with shock and immense sadness across the country. Before I present to you details of our performance in 2005, I would like to place on record our deepest condolences to the Al Maktoum family and the Nation on the untimely death of our leader, Sheikh Maktoum Bin Rashid Al Maktoum.

Year 2005 was truly an exceptional year in all respects for the financial sector in the UAE. High oil prices, a booming stock market and extensive infrastructure projects kept the economy growing at a fast pace. The unprecedented all-round growth and euphoric conditions in the stock market led to a number of highly successful Initial Public Offerings (IPO's) from newly established companies. Also the much awaited DGCX and DIFX went live.

The Bank participated and facilitated economic activities across various sectors while maintaining its cautious approach and applying prudent risk management policies. The results for the Year 2005 were more than satisfying as the Mashreqbank Group posted a growth of 43% in Total Assets and 132% in Net Profit.

Operating Income for the year reached a record level of AED 3.107 Billion. Inspite of declining spreads, the growth in Net Interest Income was 13%. However, Fee and Other Income had a growth of 149%. The major contribution to this unprecedented growth was investment income reflecting mainly in the net realized investment gains on trading and available for sales portfolio. Our Brokerage and Asset Management businesses also performed very well adding to fee and commission income of the group.

Our subsidiary, Oman Insurance Company also had a record year contributing handsomely to Non-Interest Income of the Bank including Investment Income.

Our expense management and productivity improvement efforts were on track. Expansion of the branch network, a significant increase in business volume and a technology refresh added to Operating Expenses which increased to AED 777 Million (a growth of 37%). Nevertheless, Operating Expenses to Income ratio at 25% was well below our target range.

Risk Management has been a key focus for the last few years and we have been working to add to the Bank's financial strength by increasing the Provisions cushion to a very comfortable level. This year we raised the bar further and provided an additional AED 139 Million for General Provision taking the total provision level to AED 827 Million which provides NPL coverage of 216% and improving the General Provision to Loans ratio from 1.7% to 2%.

Net Profit at AED 1.739 Billion reflects a growth of 132% over last year.

Customer Deposits increased by AED 8.9 Billion reaching a total of AED 30 Billion outpacing the growth of Advances which grew by AED 4.6 Billion to AED 22.3 Billion. As a result, the Advances to Customer Deposit ratio improved from 83% to 74%. Total Assets jumped by 43% to reach AED 45.7 Billion. Shareholders equity at AED 7.3 Billion (excluding minority interest) is 16% of Total Assets and our Capital to Risk Assets ratio (as per UAE Central Bank guidelines) reached 19.67% compared to 17.85% last year. Looking at the growth of the Bank during the year and in view of future growth prospects, your board finds it necessary to have a stronger capital base. As such, the board has recommended distribution of cash dividend @ 20% i.e, AED 2 per share.

UAE Economic Scene

UAE's gross domestic product is estimated to have grown by 12% during 2005 to AED 424 Billion. This is the third consecutive year when double digit growth was registered. Although the UAE economy is highly diversified compared to other GCC countries, oil still remains the mainstay of the economy. Surging oil prices coupled with higher production levels contributed to the GDP growth and added significant trade surplus during 2005.

The consolidated fiscal deficit which narrowed sharply in 2004 to just AED 855 Million is expected to convert into surplus in 2006. The first surplus in 20 years is projected to be in the range of AED 7-10 Billion.

The UAE capital market witnessed over 100% growth during the year. With reforms in the regulatory regime expected and government plans to accelerate privatization, the buoyancy in the stock market is expected to continue in the coming years. On the other hand, Government spending on infrastructure projects and growth in

Important Indicators

	2005	2004	2003	2002	2001
Advances to Total Deposits	**66%**	73%	70%	65%	56%
Liquidity (Liquid Assets to Total Assets)	**48%**	39%	38%	42%	48%
Equity to Total Assets	**15.9%**	15.2%	15.2%	14.3%	13.4%
Return on Average Equity (Pre-tax)	**28.8%**	17.1%	17.0%	17.0%	16.0%
Return on Average Equity (After-tax)	**28.7%**	17.0%	16.3%	15.8%	14.1%
Return on Average Assets (Pre-tax)	**4.49%**	2.60%	2.40%	2.24%	1.92%
Return on Average Assets (After-tax)	**4.48%**	2.58%	2.41%	2.18%	1.81%
Efficiency Ratios	**25.00%**	33.06%	36.30%	40.23%	41.95%

the real estate market kept the construction sector humming. During the year, the Monorail project worth AED 12 Billion and Deira beach contract worth AED 16 Billion were awarded.

Establishment of DIFX and DGCX in Dubai opened a new chapter and is considered the first step in making Dubai a truly international financial centre. In the coming year, the Dubai Mercantile Exchange, an emerging futures exchange will be established in partnership with the New York Mercantile Exchange adding to its stature.

All key economic indicators during the year were extremely healthy and led to a business environment conducive to growth. The indications are pointing to an equally positive environment in the coming year too. However, rising inflationary pressure and overpricing of assets was a genuine concern expressed by economists and analysts.

2006 in Perspective

Last year, I had mentioned the ambitious growth plan we had outlined for 2005-2007 period. The first year of this plan period turned out to be an exceptional one in terms of the economic climate and the growth opportunities it opened up for the financial sector. Since the Bank was ready to capitalize on such opportunities, it responded to the occasion and posted an outstanding performance.

The high of the economic cycle we are in is expected to continue in 2006 albeit with some correction. Our plans for 2006 are drawn keeping in mind the expected economic environment and the risk management challenges it poses. We will deliver a comparable performance in 2006 with emphasis on faster growth in non-risk income, diversification of assets and revenue streams and improved risk management. We will continue to be a customer-focused organization and have plans to launch a number of new products and service initiatives to cater to our customers.

On behalf of the Board, I thank the Chief Executive Officer and the Management and Staff of the Bank. The credit for this outstanding performance goes to them and to their dedication and commitment. We are also grateful to the customers, the UAE Central Bank and the Government for their continued support.

Thank you.

Abdullah Bin Ahmed Al Ghurair
Chairman

Mr. Abdul Aziz Abdulla Al Ghurair

Director & Chief Executive Officer

“Our strong focus on intellectual capital remained the key differentiating factor in this competitive market. It is the team of dedicated professionals we have built over time whose hard work, competitive spirit and desire to excel made 2005 achievements possible.”

Chief Executive Officer's Review

Year 2005 marked the beginning of our current strategic plan and mission '3Qs.' It is our obsession with Quality that led us to dedicate our efforts for the next three years in pursuit of 'Quality People, Quality Service and Quality Earnings.' The 'Mission 3Qs' reflects our conviction that only Quality People delivering Quality Service can lead to Quality Earnings.

It is indeed gratifying that our accomplishments in the first year of the three year Strategic Plan had been overwhelming in all respects. Financial performance for the year was outstanding with 132% increase in profit and 43% growth in Total Assets. The Branch network grew by 35%. Asset Management business was launched with instant success and Investment Banking was added to the Bank's product range. Our brokerage business was enhanced keeping pace with the growing local market dimensions. During the year, the Bank continued to tap international markets by drawing down US$ 325 Million under its existing EMTN program and also by issuing a syndicated loan of US$ 250 Million. A financial lab equipped with very sophisticated credit scoring and rating models was established which enabled us to set-up a system to calculate PD and LGD for our funded and non-funded credit exposure. The Bank received international recognition from Euromoney, the European Financial Management and Marketing Association (EFMA) and was awarded the Sheikh Mohammed Bin Rashid Al Maktoum Award for Performance Excellence (Finance Category).

Our strong focus on intellectual capital remained the key differentiating factor in this competitive market. It is the team of dedicated professionals we have built over time whose hard work, competitive spirit and desire to excel made 2005 achievements possible.

Retail Banking

Our Retail Banking Group saw growth and enhancements across the board, which further strengthened our market leading position in many segments.

To increase market penetration, the Bank opened 12 new branches in 2005 increasing our retail network to 46 branches across the UAE. Two additional Customer Service Centres were also opened. An additional 37 ATMs were commissioned to bring the Bank's total ATM count to 148, one of the highest in the UAE.

The Bank maintained its momentum in launching cutting-edge new products and services. For the first time in the UAE and Middle East, Mashreqbank has introduced a completely new savings product - Unfixed Deposits - which provides savers with a safe way of earning higher interest rates while still retaining liquidity to meet any unforeseen circumstances. The product has been extremely well received.

Mashreqbank is still the only Bank in the region issuing fully enabled smart cards and during the year launched the premium Platinum credit card. Based on independent research by the European Financial Management & Marketing Association (EFMA), Mashreqbank was awarded first prize in the prestigious Grand Prix 2005 for having the best credit card rewards and loyalty programs in the world.

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Further international recognition came from Euromoney magazine which has rated Mashreqbank's Home Loan as the best mortgage product in the UAE.

The Bank also enhanced its range of Bancassurance products to suit every need with CapitalPlus, FutureGuard and Golden Shield. We are one of the few Banks in the UAE to offer a comprehensive range of 'Life' and 'Non-Life' insurance, including motor, travel and home to name a few.

The Bank also introduced another unique saving account product called the 'Step-up Account' which allows you to earn more interest as your account balance increases. It also introduced a Debit Chip Card, which is the first of its kind to offer a loyalty and rewards program.

Leading the market in introducing novel products and services has not taken away our focus to provide customers with consistent high levels of service. To this end the Bank has set up of a separate service quality initiative which enables us to closely monitor all customer interaction 'touch points' and to take corrective action where needed to ensure complete customer satisfaction.

Commercial and Investment Banking

On the back of a strong economy Commercial and Investment Banking Group reached new heights during 2005. The funded assets grew by 75% with improvement in asset quality. Total revenue jumped by over 50% whereas fee and commission income went up by 60%. One of the major contributions to fee income was the Wealth Management unit which has grown by leaps and bounds this year. We were not only able to break new grounds in terms of core revenues, assets under management and deposits but also augmented our investment product range to include a number of local and regional investment funds, in addition to capital guaranteed funds.

The newly-established Investment Banking Division closed a mandate as a joint financial advisor to a leading business house in their bid to acquire a majority stake in a regional petroleum refinery. An equity origination and distribution team was established to assist clients in raising equity in primary and secondary markets and to advice on mergers and acquisition. During the year, the Bank acted as a collecting Bank for a number of primary and secondary market public offering of shares and acted as lead arranger for debt capital raising for various clients like Qatar Steel Co., Shuaibah Water and Electricity Company KSA, Qatar Gas Company, etc. The Bank raised over US$ 5.5 Billion of commercial debt for its clients. Mashreqbank was the lead arranger on the US$ 2.2 Billion facility raised by Dubai Ports Authority and a co-arranger for over US$ 850 Million facility raised by ME Global and Wataniya Telecom Algeria.

Our conventional business of contractor finance and trade finance also experienced significant growth. Transaction flows and revenue growth in this area were also in double digits. A number of flagship transactions were closed during the year including the joint signing with Mizuho Bank of an agreement to provide finance to the Contractors Consortium that won the contract to build Dubai Metro. We also acted as lead arranger for a guarantee facility for an international construction company's Qatar project.

Within the Commercial and Investment Banking group, a new division was established to tap the rapid growth in the small and medium enterprise segment. This segment is witnessing a mushrooming of firms both in the trading and service sectors feeding off the phenomenal growth in the tourism, logistics, retailing and hospitality business. A new sales and delivery model is being implemented to upscale acquisition, growth and cross-sell opportunities based on a geographic cluster-based approach.

Treasury and Capital Markets

Treasury & Capital Markets in line with the growth of markets in the UAE had a thriving 2005. The results were strong across client and proprietary segments and were achieved on the back of a focused operation across an expanded suite of products. Our breadth of product ranges across conventional and alternative asset classes with a global geographic scope. The talented team in place worked diligently to seamlessly deliver innovative and tailor made solutions to our clients across global capital markets. In 2005 we further invested in our business and technology to better meet our clients' requirements.

The highlight of the year was the Bank's successful foray into the regional capital markets through our asset management and a revamped brokerage operation. Equity Funds were established and well received in both the domestic and regional markets and innovative investment structures were delivered to meet the growing needs of our franchise. In line with Bank's emphasis on Qatar as a potential growth market we launched the first country specific fund providing clients a broad exposure into the country's stock market.

Going forward we aim to expand further into the GCC region by offering innovative products across all asset classes and strive to become a leading player in the region. In the coming year we aim to provide customers with a robust and advanced electronic trading and execution system across product classes which we believe will help to further improve our quality of service.

Correspondent Banking

The Global economy has performed well as a result of which credit appetite has gone up for many competitors who were not present in our target markets. This increased competition has squeezed the spreads in emerging markets. Increased liquidity and improved risk perception has, on the other hand, elevated market competition with big international Banks and small local / regional Banks entering the market. Despite stiff competition, Correspondent Banking business maintained a healthy growth in the year 2005.

Our success is primarily driven by an objective of positioning Mashreqbank as a service 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. Indian branches are being positioned to cater to business in the Indian Sub Continent region. Close relationship is being maintained in target countries through the presence of Liaison Offices in Bangladesh & Pakistan. We have been able to leverage our technological and operational expertise to cover geographical areas even where we do not have physical presence.

The focus of the business in terms of market, risk and products has been met through introduction of new products, expanded target markets, close monitoring of credit risk and strategic addition of customized packaged products for individual customers.

We are moving as per plan to centralize our overseas branch operations in Dubai which is expected to be complete by mid 2006. The initiative shall provide standard product offering, standard delivery time and customized customer offering besides better management control of branch operations and enhanced disaster recovery arrangement.

Insurance Business

Year 2005 was an outstanding one for our insurance subsidiary, Oman Insurance Company. During the year, insurance underwriting profit jumped by 52% and overall premium revenue went up by 51%. However, investment related income far exceeded the insurance income to take the total profit to AED 748 Million. During the year, Oman Insurance Company was named "General Insurer of the Year" in the first Middle East Insurance Awards.

Oman Insurance Company maintained its leadership position in the Life and Medical segment by being the provider of the widest range of products. Its alliances with Banks like Mashreqbank and ABN Amro for Bankassurance products and with international medical insurance providers like Bupa enabled it consolidate its market share in this segment.

Risk Management

Mashreqbank has a well-developed Risk Management framework which recognizes the many components of risk – Credit Risk, Market Risk, Operational Risk and Systemic Risk.

Credit Risk: Credit risk is the potential financial loss arising from the inability of a borrower/counterparty to meet its financial obligations. Credit risk exists in lending activities, derivatives, letters of credit and financial guarantees, unfunded credit commitments. At Mashreqbank, credit risk is managed using Bank-wide policies and standards for risk measurement, limit setting, underwriting, and portfolio concentrations.

During the year under review, the Bank completed a comprehensive credit analytics project. The Bank has developed new risk rating tools for commercial credits and scoring models for retail products; it has adopted a new risk rating scale covering the entire portfolio. Sophisticated statistical techniques are used for estimating default probabilities and for calculating economic capital. Despite a massive growth in assets, overall portfolio quality remains robust. The Bank has a conservative policy for early recognition of impairment and for building up a sufficient cushion of reserves for non-performing assets. The Bank is well-prepared for implementation of Basel II provisions at the appropriate time.

Corporate Credits: Credits to corporates and institutions is managed through an assessment of borrowers' risk profile, analysis of financial condition in conjunction with current industry trends, appropriateness of credit structures and post-approval administration. Every credit exposure is assigned a risk rating and is subject to independent credit approval based on risk rating, collateral, single name concentration and evaluation of risk adjusted pricing. Credit exposures are monitored continuously for possible adjustments based on the quality of the portfolio.

Retail Credits: Retail credit risk is managed throughout a borrower's credit cycle. Credit policies and product programs are approved independently by risk management. Appropriate transactional authorities for initiating credits are delegated to business under approved programs. The Bank uses statistical techniques for monitoring the portfolio by product and by vintage. Changes in credit parameters and pricing are made on the basis of ongoing evaluation of risk adjusted profitability. The Bank has completed development of credit scoring models and will commence using scoring in the retail credit and marketing processes. The retail portfolio is performing well. Technology

On the back of a strong economy Commercial and Investment Banking Group reached new heights during 2005. One of the major contributions to fee income was the Wealth Management unit which has grown by leaps and bounds this year.

platforms are being upgraded to strengthen the end–to-end management of retail credit cycle. The Bank has an aggressive recovery and problem loan management program to minimize credit losses in the business.

Market Risk: Market Risk primarily results from Price Risk and Liquidity Risk. As a matter of policy, Mashreqbank carries a limited amount of market risk which is closely monitored. Price risk is measured using value-at-risk models. Positions are marked to market as required by international accounting standards. Liquidity risk is managed through adequate diversification, market access strategies and contingency funding plans.

Operational Risk: The Bank has completed a review of operational risk issues across all lines of business as defined by the Basel II accord. The Bank has put in place appropriate policies and personnel to manage this area of risk.

Risk Review

Apart from Risk Management functions, an independent Risk Review group has the overall responsibility of carrying out independent reviews and audits of Mashreqbank's entire Credit Portfolio, all the Operating, Functional and Support areas to assess the adequacy of control framework and risk mitigation initiatives. Its methodology keeps dynamically evolving and changing with the risk profile, dimensions, policies to address risks and structure of the Bank. Independent of all the areas of the Bank, Risk Review provides assurance to the Board of Directors, CEO and Senior Management on the adequacy of controls in the Bank.

In addition, through its Compliance arm the group provides ongoing critical support in ensuring that the renewed and growing significance of strictly observing all the regulatory and anti money laundering requirements are fully met by all the areas of the Bank. The Bank is amongst the first in the region to implement a world class automated AML transaction monitoring system coupled with a client screening solution that is second to none.

The group comprising of specialists in the field of Portfolio Reviews, Audit and Compliance also plays a prominent role in its consultative capacity and continually interacts with all the areas of the Bank to help build control, upfront as a preemptive measure and to bring about efficiencies in the processes.

Information Technology

Information Technology played a key role in the success of the Bank. Our core banking application was successfully migrated from legacy mainframe to an open platform. This migration resulted in substantial cost savings, faster core banking access from delivery channels and, a more robust development environment that supports dynamic nature of our business by significantly reducing the time to market.

Mashreqbank vigorously continues to pursue compliance with regulatory needs of the region. In the process, successful implementation of an Anti-Money Laundering (AML) system was completed. To further enhance our capabilities in business intelligence, Mashreqbank has invested in a world renowned Data Warehousing solution from one of the global-leaders in the domain. This implementation, planned for early 2006 will assist in realizing our vision of custom-tailoring products and services to the individual needs of each and every customer.

As part of its strategic plan, the Bank is in the process of developing an IT Strategy to support its business plans for near and future growth. Currently we are in the final stages of selecting a world renowned management consulting firm to help in this important strategic endeavor. Key objective for this initiative is to ensure that we maintain our position as a business and technology leader in the region.

Our technology arm, Mindscape's external focus group division since its inception in 2003 has gone from strength to strength in terms of acquiring new customers and partnerships in Middle East, Africa and South East Asia. Today, Mindscape is perceived as a leading Systems Integrator backed by some of the largest CRM, ERP, Data Warehouse and Infrastructure implementations in both financial as well as non-financial institutions in the region. Due to rapid expansion in business, Mindscape is soon moving to its brand new headquarter in Dubai Internet City where among existing services, a whole new range of outsourcing services will be offered.

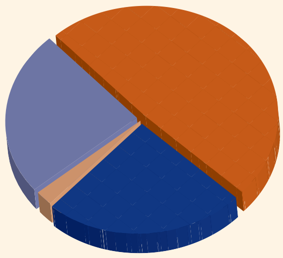
Operational Efficiency

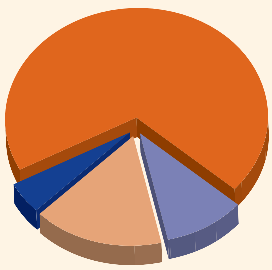
Over a decade ago, Mashreqbank was the first Bank in the UAE to centralize its operational activities and adopt the concept of showroom and factory in its business operations. Centralization of regional processing was the natural next step which was implemented about 5 years back. Year 2005 saw a new milestone in our quest to continuously improve productivity and efficiency with centralization of our London and New York operations in Dubai. This provides us the capability of 24-hour operations with better controls and effective business continuity planning.

The Business Process and Quality Management team provided support to all Units across the Bank to continuously review the end-to-end processes and suggest improvements. The discipline of product development processes ensured establishment of documented Standard Operating Procedures across products and services which are regularly reviewed by this Unit to improve productivity and efficiency.

CLASSIFICATION OF ASSETS/LIABILITIES - DECEMBER 31,

	2005	2004
ASSETS		
Other Assets	**2.4%**	3.2%
Cash and Bank Balances	**24.2%**	24.1%
Advances	**48.7%**	55.1%
Investments	**24.7%**	17.6%
LIABILITIES		
Long Term and Other Liabilities	**10.9%**	9.1%
Customer Deposits	**65.6%**	66.1%
Bank Deposits	**7.7%**	9.7%
Shareholder's Equity	**15.9%**	15.2%





Human Resources

Since Quality people is a critical component of our Mission and Strategic Plan, the professional talent attraction, development and motivations have been at the forefront of the Banks priorities. However, in the wake of a phenomenal growth in the banking sector, the acquisition and retention of intellectual capital has been a challenge.

During the year, the Bank launched a Talent Management initiative to identify high potential individuals and provide them accelerated learning and growth opportunities. In addition, we continued our focus on design and delivery of world-class Quality programs to enhance the effectiveness and development of all Mashreqbank employees. Keeping in mind the developments in the market, we enhanced our Certification Training Model for all frontline professionals by adding international Certifications on Investment and Bankassurance. During the year, 447 programs were conducted with 9232 man days of training.

Our Emiratisation efforts during the year were doubled and we were able to attract 129 UAE Nationals reaching a 22.5% level of Emiratisation which is slightly short of our target. In line with our commitment for development of UAE Nationals, a comprehensive policy framework on training and development of Nationals was released. During the year, each National was provided at an average of seven days training.

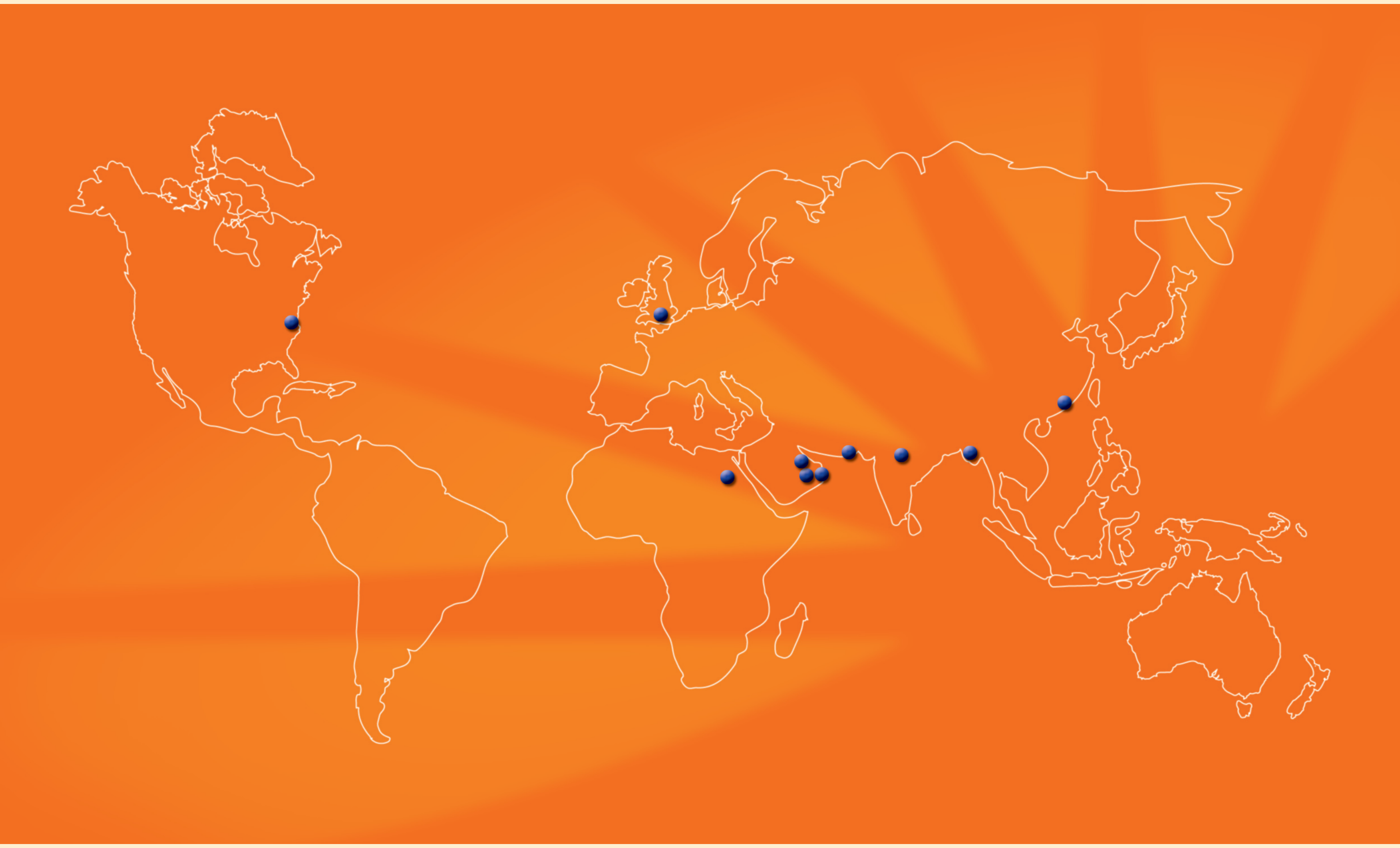
We take employees' opinions seriously and involve them in all critical decision-making. Participation in our Employee Engagement Survey was 95% with an engagement score at 60%. Based on the feedback, employee focus groups were established to recommend action on issues and concerns of our employees. The engagement score of UAE National employees as a group was at 66%.

To conclude, I would like to highlight that an overwhelmingly successful year sets a high expectation level of all stakeholders for the subsequent year. It is a daunting task to exceed previous year performance and we are aware of the enormity of the challenge. Nevertheless our teams' spirits are high, we have plans to invest in infrastructure, refresh our technology, extend our network, launch new products and invest in learning. Our planning is meticulous and our execution capabilities are second to none. We are committed to improve upon our 2005 performance and, we will do that.

Thank you.

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Worldwide Presence



UAE BRANCHES

Abu Dhabi

	Tel	Fax
Abu Dhabi (Main)	02 6127201	02 6269550
Al Jawazat	02 6416405	02 6412799
Al Khalidiya	02 6937805	02 6673883
Al Mina	02 6734647	02 6734840
Al Salam	02 6967700	02 6742482
Baniyas	02 5048214	02 5822115
Muroor	02 4198219	02 4481821
Mussaffa	02 5555051	02 5555052
Mushrif	02 4079209	02 4431717
Zayed The 2nd Street (Electra)	02 6178797	02 6214052

Al Ain

Al Ain (Main)	03 7077220	03 7645602
Al Ain (AIT)	03 7077319	03 7668896

Ajman

Ajman (Main)	06 7017319	06 7426690
Grand Station	06 7430300	06 7431444

Dubai

Al Aweer	04 3333727	04 3333670
Al Khaleej	04 7067710	04 2723786
Al Murooj	04 3434452	04 3434793
Al Rashidiya	04 2857008	04 2860373
Burjuman	04 5097323	04 3522035
DIC	04 3632000	04 3632025
Dubai Health Care City	04 3624760	04 3624759
Hor Al Anz	04 6082218	04 2662887
Jebel Ali	04 8081210	04 8816628
Jumeirah	04 4077623	04 3452179
Khor Dubai	04 3534000	04 3531854
Mall of the Emirates	04 2857008	04 2860383
Marina	04 3609944	04 3608845
Qusais	04 2175104	04 2676347
Riqa	04 2211120	04 2233785
Sheikh Zayed Road	04 3212573	04 3212574
Suk Al Kabir	04 2264178	04 2266783
Zabeel	04 3340313	04 3367803

Sharjah

Sharjah (Main)	06 5118227	06 5518980
Al Khan	06 5772282	06 5772977
Al Wahdah	06 5660560	06 5668599
King Abdul Aziz	06 5077606	06 5745334
Buhairah	06 5742888	06 5744446
Dhaid	06 8027419	06 8822416
Sharjah Industrial Area	06 5344747	06 5340188

Fujairah

	Tel	Fax
Fujairah	09 2221100	09 2226860
Dibba	09 2444230	09 2443831
Kalba	09 2777430	09 2778950
Khorfakkan	09 2385295	09 2387189

Ras Al Khaimah

Ras Al Khaimah (Main)	07 2361644	07 2363620
Al Nakheel	07 2281695	07 2281880

Umm Al Quwain

Umm Al Quwain	06 7666948	06 7664948

CUSTOMER SERVICES UNIT

Abu Dhabi		
Madinat Zayed	02 6312578	02 6312483
Dubai		
Lamcy Plazza	04 3348050	04 3356313
EPPCO	04 3985854	04 3980727
Sharjah		
Sahara Mall	06 5319550	06 5319551

SUBSIDIARIES

UAE

Dubai		
Oman Insurance Co. P.s.c. (8 Branches In UAE) Tlx: 46030 OIC EM	04 2624000	04 2690110
Osool - A Finance Co. (10 Branches In UAE)	04 2737000	04 7066966
Mindscape Information Technology LLC	04 2714333	04 2722985
Mashreq Securities LLC	04 2223333	04 2226061
Injaz Services FZ LLC	04 2223333	04 2226061

Bahrain

Makaseb Funds Company BSC	(973-17)535455	(973-17)535405

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Wickhams Cay
PoBox 662, Road Town
Tortola

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Fax: (974) 4929288

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

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
Fax: (91-11) 23357143/46
Swift: MSHQ IN BB

EUROPE

United Kingdom
London
Tel: (44-20) 73824000
Fax: (44-20) 72569717
Swift: MSHQ GB 2L

AMERICA

New York
Tel: (1-212) 5458200
Fax: (1-212) 5450918
Swift: MSHQ US 33

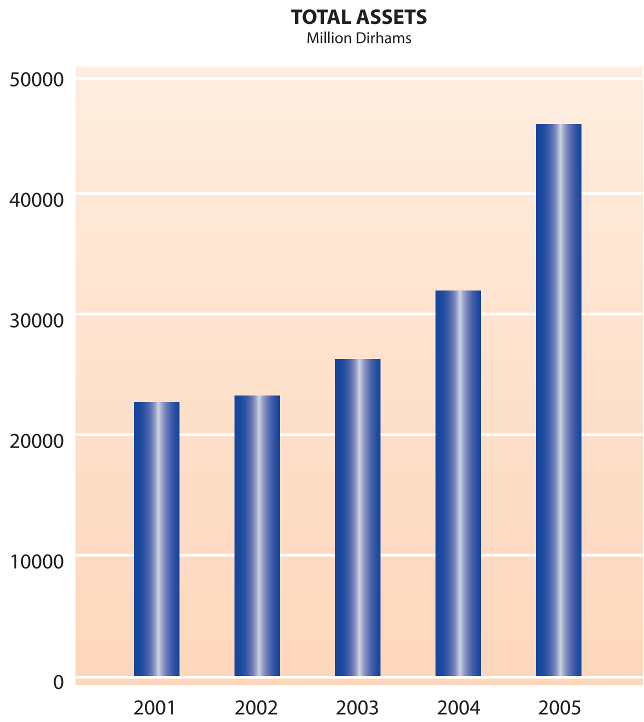
REPRESENTATIVE OFFICES

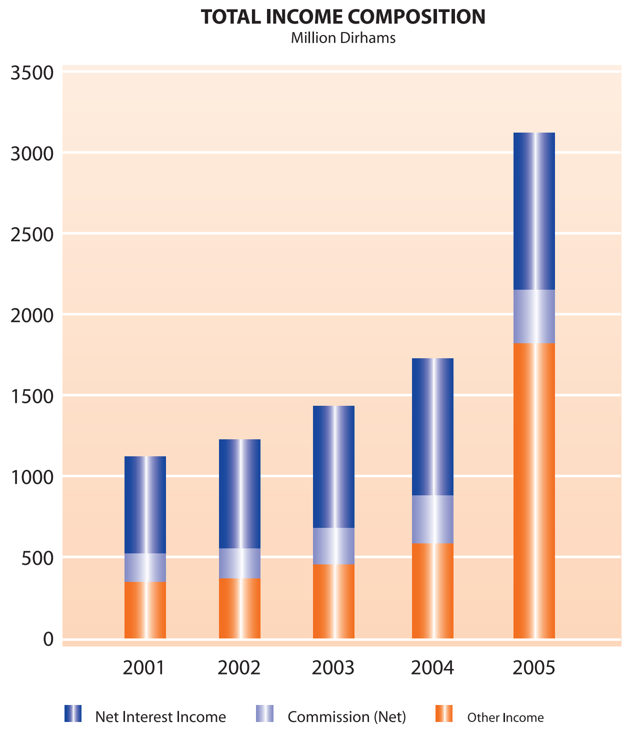
Bangladesh
Dhaka Rep. Office
Tel: (880-2) 7125169
Fax: (880-2) 7124195
Swift: MSQ BD DH

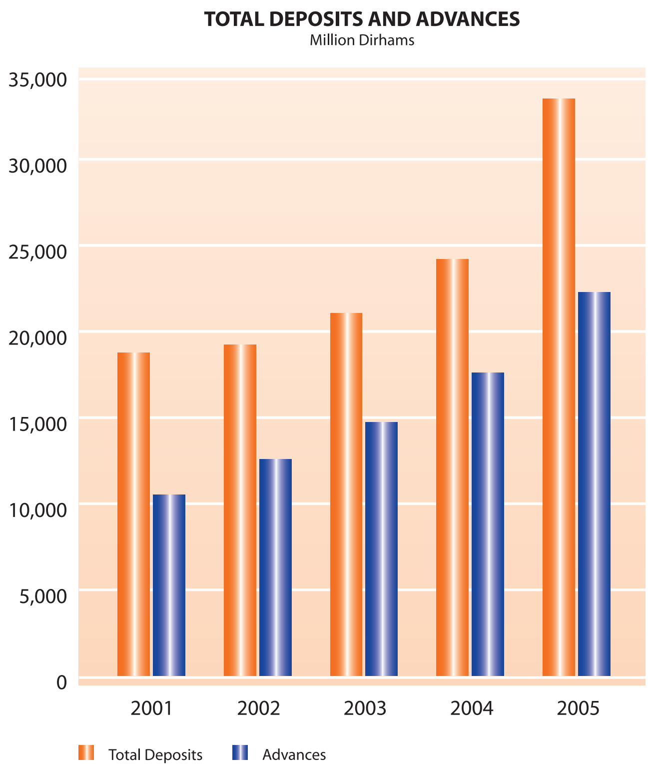
Pakistan
Karachi Rep. Office
Tel: (92-21) 5656830
Fax: (92-21) 5656872
Swift: MSHQ PK KA

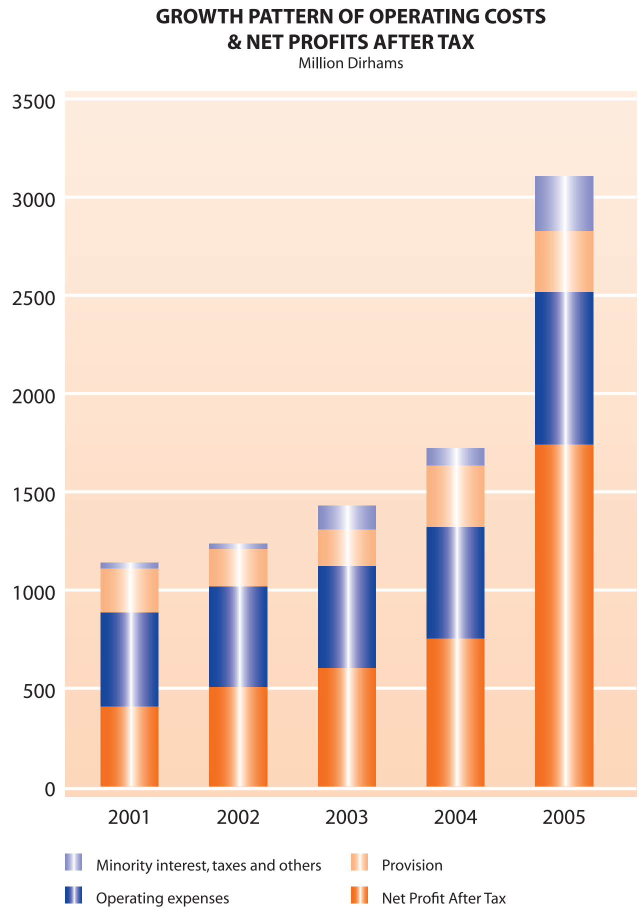
For more information visit www.mashreqbank.com

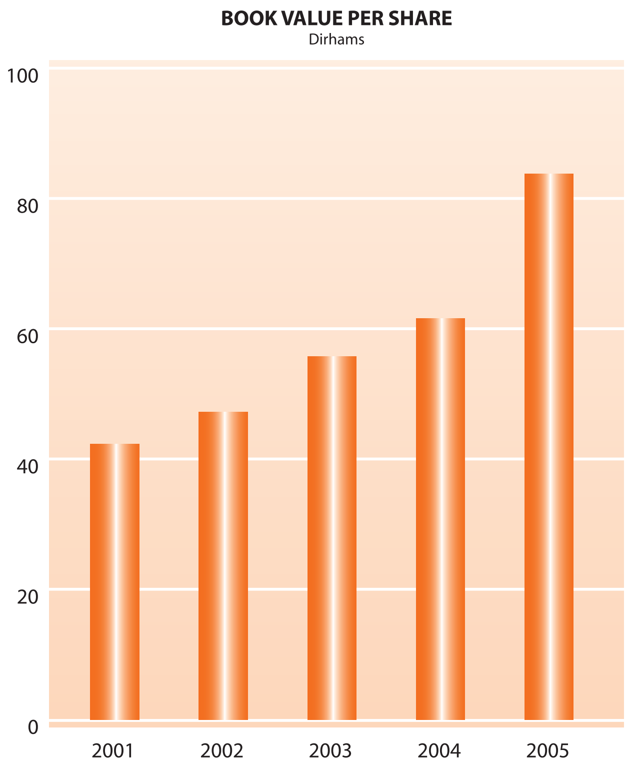
Financial Highlights

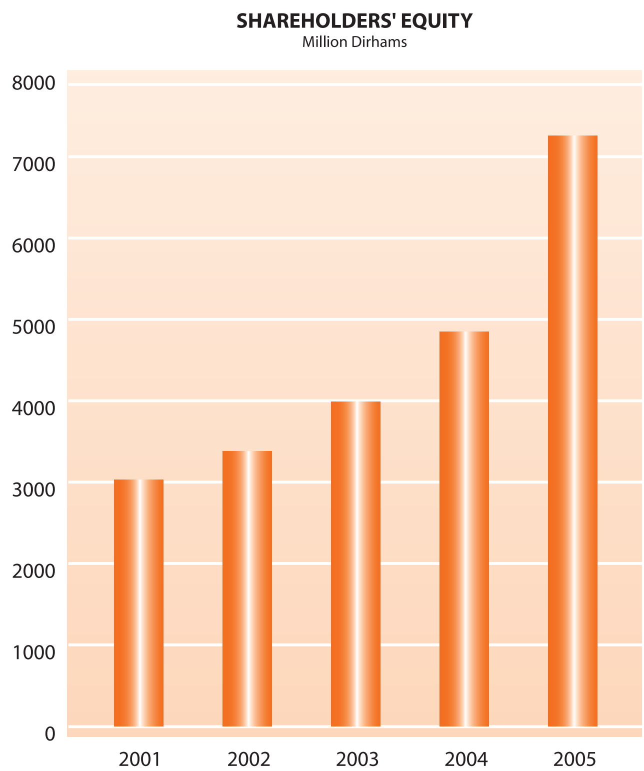







GROWTH PATTERN OF OPERATING COSTS
& NET PROFITS AFTER TAX
Million Dirhams
3500
3000
2500
2000
1500
1000
500
0
2001
2002
2003
2004
2005
Minority interest, taxes and others
Provision
Operating expenses
Net Profit After Tax


BOOK VALUE PER SHARE
Dirhams
100
80
60
40
20
0
2001
2002
2003
2004
2005


SHAREHOLDERS' EQUITY
Million Dirhams
8000
7000
6000
5000
4000
3000
2000
1000
0
2001
2002
2003
2004
2005

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, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of the United Arab Emirates requirements.

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.

As discussed in Note 40, the accompanying 2005 financial statements have been reissued to include the proposed dividends which were approved by the Board of Directors and ratified by the shareholders on March 8, 2006.

Deloitte & Touche

Saba Sindaha (Reg. No. 410)

Dubai
January 19, 2006
(March 11, 2006 as to Note 40)

Consolidated Balance Sheet

as of December 31

		2005		2004	
	Note	**AED'000**	**US$'000**	AED'000	US$'000
Assets					
Cash and balances with central banks	5	**4,004,935**	**1,090,372**	3,058,500	832,698
Deposits and balances due from banks	6	**7,066,495**	**1,923,903**	4,649,506	1,265,861
Loans and advances (net)	7	**22,269,429**	**6,063,008**	17,606,168	4,793,403
Interest receivable and other assets	8	**893,548**	**243,274**	835,018	227,339
Investment in securities	9	**11,090,130**	**3,019,366**	5,479,984	1,491,964
Investment property	10	**224,103**	**61,014**	145,493	39,611
Property and equipment	11	**193,827**	**52,771**	174,159	47,416
Total assets		**45,742,467**	**12,453,708**	31,948,828	8,698,292
Liabilities					
Customers' deposits	12	**30,004,792**	**8,169,014**	21,107,058	5,746,544
Deposits and balances due to banks	13	**3,500,231**	**952,962**	3,090,409	841,386
Insurance and life assurance funds	14	**260,448**	**70,909**	189,143	51,495
Medium-term floating rate notes	15	**2,295,625**	**625,000**	1,101,900	300,000
Long-term loans	16	**30,665**	**8,349**	45,786	12,466
Interest payable and other liabilities	17	**1,495,887**	**407,266**	1,159,461	315,671
Total liabilities		**37,587,648**	**10,233,500**	26,693,757	7,267,562
Shareholders' equity					
Share capital	18 (a)	**866,195**	**235,828**	787,450	214,388
Statutory and legal reserves	18 (b)	**468,839**	**127,645**	393,984	107,265
General reserve	18 (c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment		**(16,005)**	**(4,357)**	(9,845)	(2,680)
Cumulative changes in fair values		**1,467,341**	**399,494**	516,459	140,610
Retained earnings		**4,160,362**	**1,132,688**	2,850,220	775,992
Equity attributable to equity holders of the parent		**7,258,732**	**1,976,242**	4,850,268	1,320,519
Minority interest	19	**896,087**	**243,966**	404,803	110,211
Total shareholders' equity		**8,154,819**	**2,220,208**	5,255,071	1,430,730
Total liabilities and shareholders' equity		**45,742,467**	**12,453,708**	31,948,828	8,698,292

The accompanying notes form an integral part of these consolidated financial statements.
The financial statements on pages 21 to 50 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

	Note	2005 AED'000	2005 US$'000	2004 AED'000	2004 US$'000
Interest income	21	**2,024,336**	**551,140**	1,423,612	387,588
Interest expense	22	**(1,049,752)**	**(285,802)**	(558,584)	(152,078)
Net interest income		**974,584**	**265,338**	865,028	235,510
Net commission income		**313,331**	**85,306**	245,701	66,894
Other income	23	**1,818,941**	**495,219**	610,293	166,156
Operating income		**3,106,856**	**845,863**	1,721,022	468,560
General and administrative expenses	24	**(776,887)**	**(211,513)**	(568,933)	(154,896)
Allowances for loans and advances and other financial assets	25	**(311,319)**	**(84,759)**	(312,470)	(85,072)
		2,018,650	**549,591**	839,619	228,592
Write-off of cumulative translation adjustment on disposal of subsidiary	39	**-**	**-**	(10,165)	(2,767)
Income before taxes		**2,018,650**	**549,591**	829,454	225,825
Income tax		**(6,578)**	**(1,791)**	(4,083)	(1,112)
Net income for the year		**2,012,072**	**547,800**	825,371	224,713
Attributed to:					
Equity holders of the parent		**1,739,350**	**473,550**	751,076	204,486
Minority interest	19	**272,722**	**74,250**	74,295	20,227
		2,012,072	**547,800**	825,371	224,713
Earnings per share	26	**AED 20.08**	**US$ 5.47**	AED 8.67	US$ 2.36

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2005

	Share capital	Statutory and legal reserves	General reserve	Retained earnings	Cumulative translation adjustment	Cumulative changes in fair values	Attributable to equity holders of the parent	Minority interest	Total	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	US$'000
At December 31, 2003	**715,864**	**371,323**	**312,000**	**2,372,357**	**(23,624)**	**241,622**	**3,989,542**	**216,606**	**4,206,148**	**1,145,153**
Changes in fair value of investments during the year	-	-	-	-	-	274,837	274,837	122,989	397,826	108,311
Overseas entities' translation adjustment	-	-	-	-	13,779	-	13,779	-	13,779	3,752
Total income recognized directly in equity	-	-	-	-	13,779	274,837	288,616	122,989	411,605	112,063
Net income for the year	-	-	-	751,076	-	-	751,076	74,295	825,371	224,713
Total income for the year	**-**	**-**	**-**	**751,076**	**13,779**	**274,837**	**1,039,692**	**197,284**	**1,236,976**	**336,776**
Transfer to statutory and legal reserves	-	22,661	-	(22,661)	-	-	-	-	-	-
Dividend paid	-	-	-	(178,966)	-	-	(178,966)	-	(178,966)	(48,725)
Bonus shares issued	71,586	-	-	(71,586)	-	-	-	-	-	-
Dividend paid to minority	-	-	-	-	-	-	-	(9,087)	(9,087)	(2,474)
At December 31, 2004	**787,450**	**393,984**	**312,000**	**2,850,220**	**(9,845)**	**516,459**	**4,850,268**	**404,803**	**5,255,071**	**1,430,730**
Changes in fair value of investments during the year	-	-	-	-	-	950,882	950,882	177,010	1,127,892	307,077
Overseas entities' translation adjustment	-	-	-	-	(6,160)	-	(6,160)	-	(6,160)	(1,676)
Total income/(expenses) recognized directly in equity	-	-	-	-	(6,160)	950,882	944,722	177,010	1,121,732	305,401
Net income for the year	-	-	-	1,739,350	-	-	1,739,350	272,722	2,012,072	547,800
Total income for the year	**-**	**-**	**-**	**1,739,350**	**(6,160)**	**950,882**	**2,684,072**	**449,732**	**3,133,804**	**853,201**
Transfer to statutory and legal reserves	-	74,855	-	(74,855)	-	-	-	-	-	-
Dividend paid	-	-	-	(275,608)	-	-	(275,608)	-	(275,608)	(75,036)
Bonus shares issued	78,745	-	-	(78,745)	-	-	-	-	-	-
Dividend paid to minority	-	-	-	-	-	-	-	(11,814)	(11,814)	(3,216)
Share of minority in newly formed subsidiaries	-	-	-	-	-	-	-	53,366	53,366	14,529
At December 31, 2005	**866,195**	**468,839**	**312,000**	**4,160,362**	**(16,005)**	**1,467,341**	**7,258,732**	**896,087**	**8,154,819**	**2,220,208**

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

Consolidated Cash Flow Statement

for the year ended December 31

	2005		2004	
	AED'000	US$'000	AED'000	US$'000
Cash flows from operating activities				
Net income for the year	**2,012,072**	**547,800**	825,371	224,713
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	**34,370**	**9,357**	35,763	9,737
Fair value adjustment – trading investments	**(58,798)**	**(16,008)**	(24,034)	(6,544)
Translation adjustment for the year	**(6,160)**	**(1,677)**	3,614	984
Allowance for impairment of loans and advances	**208,442**	**56,750**	242,263	65,958
Fair value adjustment – property investment	**(39,713)**	**(10,812)**	(15,505)	(4,221)
Loss on sale of property and equipment	**2,459**	**669**	1,765	481
Cumulative translation adjustment written off	**-**	**-**	10,165	2,767
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	**(272,702)**	**(74,245)**	(126,939)	(34,560)
Increase in bank deposits maturing after three months	**(703,377)**	**(191,499)**	(395,681)	(107,727)
Increase in advances to customers	**(4,871,703)**	**(1,326,356)**	(3,349,020)	(911,794)
Increase in interest receivable and other assets	**(58,530)**	**(15,935)**	(297,148)	(80,901)
Increase in trading securities - net	**(3,872,757)**	**(1,054,385)**	(1,496,700)	(407,487)
Increase in customers' deposits	**8,897,734**	**2,422,471**	2,343,768	638,107
Increase in medium-term floating rate notes	**1,193,725**	**325,000**	1,101,900	300,000
Decrease in long-term loans	**(15,121)**	**(4,117)**	(5,892)	(1,604)
Increase in deposits and balances due to banks	**409,822**	**111,577**	804,414	219,008
Increase in insurance and life assurance funds	**71,305**	**19,413**	59,970	16,327
Increase in interest payable and other liabilities	**336,426**	**91,594**	359,150	97,781
Net cash provided by operating activities	**3,267,494**	**889,597**	77,224	21,025
Cash flows from investing activities				
Purchase of property and equipment	**(58,750)**	**(15,995)**	(40,653)	(11,068)
Proceeds from sale of property and equipment	**2,253**	**613**	447	122
Purchase of non-trading investments, net	**(589,596)**	**(160,521)**	(52,495)	(14,292)
Net cash used in investing activities	**(646,093)**	**(175,903)**	(92,701)	(25,238)
Cash flows from financing activities				
Dividend paid to shareholders	**(275,608)**	**(75,036)**	(178,966)	(48,725)
Dividend paid to minority	**(11,814)**	**(3,216)**	(9,087)	(2,474)
Capital introduced by minority	**53,366**	**14,529**	-	-
Net cash used in financing activities	**(234,056)**	**(63,723)**	(188,053)	(51,199)
Increase/(decrease) in cash and cash equivalents (Notes 27 & 28)	**2,387,345**	**649,971**	(203,530)	(55,412)

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

Notes to Consolidated Financial Statements

for the year ended December 31, 2005

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

At December 31, 2005, 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	99.98
Makaseb Funds Company BSC	Kingdom of Bahrain	99.9
Injaz Services FZ LLC	United Arab Emirates	100
Roya Executive Ltd.	British Virgin Islands	*

* Roya Executive Ltd. is consolidated by virtue of control.

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.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's presentations and disclosure in the financial statements as required by the following International Accounting Standards:

- Presentation of financial statements (IAS 1)
- Property, plant and equipment (IAS 16)
- Related party disclosures (IAS 24)
- Financial Instruments: Disclosure and Presentation (IAS 32)
- Financial Instruments: Recognition and Measurement (IAS 39)

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

IFRS 6 — Exploration for and Evaluation of Mineral Resources (Effective from January 1, 2006)
IFRS 6 is not relevant to the Group's operations as the Group does not carry out exploration for and evaluation of mineral resources.

IFRS 7 — Financial Instruments Disclosures (Effective from January 1, 2007)
IFRS 7 replaces the disclosures required by IAS 30, Disclosures in the Finanacial Statements of Banks and Similar Financial Institutions, and parts of he disclosure reqirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group will apply IFRS 7 from annual periods beginning January 1, 2007.

IFRIC 4 — Determining whether an Arrangement Contains a Lease (Effective from January 1, 2006)
IFRIC 4 requires the determination of whether an arrangement is or contains a lease, to be based on the substance of the arrangement.

IFRIC 5 — Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (Effective from January 1, 2006)
IFRIC 5 is not relevant to the Group's operations.

IAS 39 — (Amendment), the Fair Value Option (Effective from January 1, 2006)
This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category.

The Management anticipate that the adoption of these Standards and Interpretations (where applicable) in future periods will have no material impact on the financial statements of the Group.

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

(ii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mashreqbank psc and entities controlled by the bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

(b) Management estimates

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In this regard, management believes that the critical accounting policies where judgement is necessarily applied are those which relate to loan impairment.

(c) Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognized on the settlement date and are initially measured at fair value, plus directly attributable transaction costs.

(d) Derivative financial instruments and hedge accounting

The Bank uses derivative financial instruments, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) to hedge the related associated risk.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

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

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

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

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 equity is transferred to the income statement for the year.

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

(e) Revenue recognition

Interest income and expense are recognized on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest income and expense include the amortization of discount or premium using the effective interest rate method. When 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 recognized in the accounting period in which they incept except for premium income from life assurance policies which is accounted for on a cash basis and premium income on marine cargo policies which is accounted for on the expected date of voyage. Insurance policy acquisition and maintenance costs are charged to expense as incurred.

(f) Foreign currency transactions

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

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

Assets and liabilities of foreign branches are translated into U.A.E. Dirham at the rates of exchange ruling at year end. Income and expenses are translated at average rates of exchange during the year. The resulting differences are included under shareholders' equity as cumulative translation adjustment and are written off to the income statement on closure or disposal of the related branch.

(g) Loans and advances

Loans and advances are stated at cost less any amounts written off and allowance for impairment.

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

(h) Loan impairment

(i) *Individually assessed loans*

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

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

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

(ii) *Collectively assessed loans*

Impairment losses of collectively assessed loans include the allowances on:

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

Performing loans

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

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

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

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

Impairment of retail loans is calculated by applying formulaic approach which allocates progressively higher loss rates in line with the overdue installment date.

Impaired loans are written off only when all legal and other avenues for recovery or settlement are exhausted.

(i) 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 consolidated 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 recognized 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 are amortized on a systematic basis to maturity using the effective interest method and taken to interest expense and interest income.

Held-to-maturity

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Available-for-sale

After initial recognition, investments which are classified as "available-for-sale" are re-measured at fair value. Gains and losses arising from the changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the income statement for the period. Impairment losses recognized in the consolidated income statement for equity investments classified as available-for-sale are not subsequently reversed through consolidated income statement. Impairment losses recognized in the consolidated income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Fair values

For investments traded in organized 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.

(j) Impairment of tangible and intangible assets

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

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

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

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

(k) 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.

(l) 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 and impairment loss, if any. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets as follows:

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

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.

(m) 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.

(n) 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.

(o) 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.

(p) Taxes on income

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

(q) 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.

(r) 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 recognized in the income statement.

(s) Cash and cash equivalents

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgements that have the most significant effect on the amounts recognized in the financial statements.

Impairment of loans

The Group's accounting policy for allowances in relation to impaired loans and advances is described in Note 3(h). Impairment is calculated on the basis of discounted estimated future cash flows.

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

Individually assessed loans

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

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

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

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

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

Collectively assessed loans

Collectively assessed allowances are made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

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

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

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

Performing loans

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

5. Cash and balances with central banks

	December 31,	
	2005	2004
	AED '000	AED '000
Cash on hand	**188,174**	132,967
Balances with central banks:		
Current accounts and other balances	**179,026**	485,500
Statutory cash ratio requirements	**962,735**	690,033
Certificates of deposit with the Central Bank of the U.A.E.	**2,675,000**	1,750,000
	4,004,935	3,058,500

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

6. Deposits and balances due from banks

	December 31, 2005 AED '000	December 31, 2004 AED '000
Demand	**476,430**	98,184
Overnight	**601,747**	243,902
Time	**5,988,318**	4,307,420
	7,066,495	4,649,506

The above represent balances due from:

	2005 AED '000	2004 AED '000
Banks abroad	**6,591,780**	4,569,147
Banks in the U.A.E.	**474,715**	80,359
	7,066,495	4,649,506

7. Loans and advances (net)

	December 31, 2005 AED '000	December 31, 2004 AED '000
(a)		
Overdrafts	**4,138,257**	3,322,695
Loans	**18,158,121**	14,488,545
Credit Cards	**717,354**	578,290
Others	**83,050**	41,957
	23,096,782	18,431,487
Less: Allowance for impairment	**(827,353)**	(825,319)
	22,269,429	17,606,168

	December 31, 2005 AED '000	December 31, 2004 AED '000
(b) Analysis by economic activities		
Manufacturing	**2,226,809**	2,098,875
Construction	**1,863,605**	1,474,735
Trade	**5,753,797**	4,241,170
Transport and communication	**650,465**	563,464
Services	**2,070,183**	1,686,777
Banks and Financial Institutions	**3,383,933**	1,968,318
Personal	**6,467,614**	5,765,635
Government/Public Sector	**361,079**	311,211
Others	**319,297**	321,302
	23,096,782	18,431,487
Less: Allowance for impairment	**(827,353)**	(825,319)
	22,269,429	17,606,168

(c) At December 31, 2005 the fair value of collateral held was AED 6,693 million (2004: AED 4,721 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. 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 382 million at December 31, 2005 (2004: AED 463 million).

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

	December 31,	
	2005	2004
	AED '000	AED '000
Balance at beginning of the year	**825,319**	667,024
Impairment allowance for the year	**250,628**	280,101
Amounts written off during the year	**(211,363)**	(106,278)
Recoveries during the year	**(37,231)**	(15,528)
Balance at end of year	**827,353**	825,319

The amount of impairment allowance for the year includes AED 42 million (2004: AED 38 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 453 million (2004: AED 303 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.

8. Interest receivable and other assets

	December 31,	
	2005	2004
	AED '000	AED '000
Interest receivable	**119,185**	86,004
Prepaid interest and expenses	**27,793**	21,798
Taxes paid in advance	**42,132**	47,461
Clearing suspense	**3,309**	1,442
Positive fair value of derivatives	**255,807**	387,472
Insurance related receivables	**259,912**	193,052
Credit Cards interchange receivables	**83,757**	44,983
Others	**101,653**	52,806
	893,548	835,018

9. Investment in securities

	December 31, 2005	December 31, 2004
	AED '000	AED '000
Trading portfolio		
Debt securities	**3,483,519**	1,369,520
Equities	**435,107**	171,343
Discretionary managed fund	**2,241,815**	1,107,732
Other investments	**706,803**	287,094
	6,867,244	2,935,689
Available-for-sale		
Debt securities	**727,804**	759,590
Equities	**3,264,079**	1,129,991
Others	**52,016**	13,043
	4,043,899	1,902,624
Held-to-maturity		
Debt securities	**178,987**	641,671
Total	**11,090,130**	5,479,984

(a) "Trading" and "available-for-sale" investments at December 31, 2005 included AED 564.62 million held in the names of "related party" nominees for the account and for the benefit of the Bank (AED 30.79 million in 2004).

(b) The fair value of investments classified under held-to-maturity amounted to AED 193.684 million as of December 31, 2005 (2004: AED 642.283 million).

(c) The above investments include debt securities aggregating to AED 463.922 million (2004: AED 583.213 million) [held-for-trading at fair value of AED 345.674 million (2004: AED 356.268 million), available-for-sale at fair value of AED 118.248 million (2004: AED 80.025 million) and in 2004, it also included debt securities held-to-maturity at amortized cost of AED 146.920 million - at fair value of AED 146.920 million)] sold under a repurchase agreement ("repo") and which are fully substitutable (Note 13).

10. Investment property

	December 31, 2005	December 31, 2004
	AED '000	AED '000
Interest in buildings and freehold land - January 1,	**145,493**	140,942
Additions during the year	**87,897**	-
Sold during the year	**(49,000)**	(10,954)
Change in fair value during the year	**39,713**	15,505
	224,103	145,493

The fair value of investment property as of December 31, 2005 has been arrived at on the basis of a valuation carried out on December 12, 2005 by The Real Estate and Valuation Centre in Land Department, Government of Dubai.

11. Property and equipment

	Properties for own use	Properties acquired in settlement of debts	Furniture, fixtures, equipment & vehicles	Improvements to freehold properties and others	Capital work-in-progress	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Cost						
At January 1, 2004	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 January 1, 2005	142,011	16,536	127,373	85,030	16,327	387,277
Additions	3,365	4,989	26,657	23,739	-	58,750
Disposals/write-offs	(3,646)	-	(11,661)	(31,849)	-	(47,156)
Transfers	16,327	-	-	-	(16,327)	-
At December 31, 2005	**158,057**	**21,525**	**142,369**	**76,920**	**-**	**398,871**
Accumulated depreciation						
At January 1, 2004	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 January 1, 2005	69,051	-	92,182	51,885	-	213,118
Charge for the year	4,760	3	16,328	13,279	-	34,370
Disposals/write-offs	(598)	-	(10,873)	(30,973)	-	(42,444)
At December 31, 2005	**73,213**	**3**	**97,637**	**34,191**	**-**	**205,044**
Carrying amount						
At December 31, 2005	**84,844**	**21,522**	**44,732**	**42,729**	**-**	**193,827**
At December 31, 2004	72,960	16,536	35,191	33,145	16,327	174,159

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 128.56 million (2004: AED 98.8 million).

12. Customers' deposits

	December 31,	
	2005	2004
	AED '000	AED '000
Current and other accounts	**5,129,216**	3,570,057
Saving accounts	**401,584**	412,415
Time deposits	**24,473,992**	17,124,586
	30,004,792	21,107,058

13. Deposits and balances due to banks

	December 31, 2005	2004
	AED '000	AED '000
Demand	**484,226**	350,553
Overnight	**240,025**	240,737
Time	**2,775,980**	2,499,119
	3,500,231	3,090,409

The above represent borrowings from:

	2005	2004
Banks in the U.A.E.	**264,855**	119,738
Banks abroad	**3,215,438**	2,970,671
Overseas central banks	**19,938**	-
	3,500,231	3,090,409

Borrowings from banks abroad for 2005 include 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 which is fixed by reference to the 3 months USD-LIBOR-BBA.

Borrowings from banks abroad include an amount of AED 918.25 million (US$ 250 million) [2004: AED 550.95 million (US$ 150 million)] being a 5 years loan obtained through a syndicate of banks maturing in December 2010. The loan carries a floating rate of interest which is fixed by reference to a 6 months LIBOR.

14. Insurance and life assurance funds

	Outstanding claims	Unearned premium reserve	Additional reserve	Life assurance fund	December 31, 2005 Total	2004 Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	AED'000
January 1,	**59,761**	**88,033**	**19,747**	**21,602**	**189,143**	129,173
Increase	**19,955**	**41,402**	**-**	**9,948**	**71,305**	59,970
December 31,	**79,716**	**129,435**	**19,747**	**31,550**	**260,448**	189,143

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.

15. Medium-term floating rate notes

During 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%.

During March 2005, Mashreqbank psc has issued the second tranche of US$ 325 million (AED 1,193.7 million) Floating Rate Notes due on March 23, 2010 at discount of 0.416% and interest rate of 3 months LIBOR plus 0.40%.

16. 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.

17. Interest payable and other liabilities

	December 31, 2005	2004
	AED '000	AED '000
Accrued interest payable	**175,392**	122,159
Income received in advance	**136,495**	74,154
Provision for staff terminal benefits	**79,561**	72,254
Provision for taxation	**39,200**	41,799
Pay orders issued	**111,765**	43,392
Negative fair value of derivatives	**226,766**	410,876
Credit Cards interchange fee income	**31,540**	17,027
Insurance premium collected in advance	**211,197**	174,525
Accrued expenses	**212,604**	95,868
Inter-group transaction	**88,913**	18,826
Others	**182,454**	88,581
	1,495,887	1,159,461

18. Shareholders' equity

(a) Share capital

During 2005 a proposed bonus share distribution, 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, 2005, 86,619,520 ordinary shares of AED 10 each (2004: 78,745,018 ordinary shares of AED 10 each) were issued and are fully paid up.

(b) Statutory and legal reserves

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

(c) General reserve

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

19. Minority interest

	December 31, 2005	2004
	AED '000	AED '000
Balance, January 1,	**404,803**	216,606
Dividends	**(11,814)**	(9,087)
Share in cumulative changes in fair values	**177,010**	122,989
Share of net income for the year	**272,722**	74,295
Share of minority in newly formed subsidiaries	**53,366**	-
	896,087	404,803

20. Contra accounts and commitments

		December 31, 2005	2004
		AED '000	AED '000
(a)	**Contra accounts (memoranda)**		
	Guarantees	**14,228,204**	9,423,370
	Letters of credit	**4,027,133**	3,517,497
	Acceptances	**800,164**	831,786
		19,055,501	13,772,653
(b)	**Derivative financial instruments** (Note 35)	**25,384,441**	33,210,054
(c)	**Other commitments**		
	Uncalled capital on investments held	**1,273**	2,023
	Total contra account and commitments (a + b + c)	**44,441,215**	46,984,730

(d) Contra accounts – maturity profile

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

2005

	Within 3 months	**Over 3 to 6 months**	**Over 6 to 12 months**	**Over 1 year**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Guarantees	**10,244,920**	**763,249**	**1,838,528**	**1,381,507**	**14,228,204**
Letters of credit	**2,807,415**	**554,258**	**447,475**	**217,985**	**4,027,133**
Acceptances	**575,813**	**148,250**	**24,030**	**52,071**	**800,164**
Total	**13,628,148**	**1,465,757**	**2,310,033**	**1,651,563**	**19,055,501**

2004

	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 year	Total
	AED'000	AED'000	AED'000	AED'000	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

21. Interest income

	Year ended December 31, 2005	2004
	AED '000	AED '000
Loans and advances	**1,470,281**	1,088,427
Central Banks	**61,373**	15,455
Banks	**329,382**	235,098
Investments	**163,300**	84,632
	2,024,336	1,423,612

22. Interest expense

	Year ended December 31,	
	2005	2004
	AED '000	AED '000
Customers' deposits	**698,460**	397,591
Central Banks	**23**	-
Banks	**351,269**	160,993
	1,049,752	558,584

23. Other income

	Year ended December 31,	
	2005	2004
	AED '000	AED '000
Net realized investment gain	**1,026,401**	104,646
Fair value adjustments of trading investments	**58,798**	24,034
Fair value adjustments of investment properties	**39,713**	15,505
Dividends income	**29,970**	23,453
Income from investment property	**2,925**	4,425
Credit Card related fee income	**108,522**	81,644
Fees and charges on banking services	**261,992**	158,782
Foreign exchange gains (net)	**90,164**	62,148
Insurance underwriting profit	**143,326**	93,953
Loss on sale of property and equipment	**(2,459)**	(1,765)
Rental income from properties	**5,080**	4,064
Others	**54,509**	39,404
	1,818,941	610,293

24. General and administrative expenses

	Year ended December 31,	
	2005	2004
	AED '000	AED '000
Salaries and employee related expenses	**499,065**	346,232
Depreciation on property and equipment	**34,370**	35,763
Other general and administration expenses	**243,452**	186,938
	776,887	568,933

Compensation of key management (included above under "salaries and employee related expenses") comprise salaries, bonuses and other benefits amounting in total to AED 101.36 million (AED 51.79 million in 2004).

25. Allowances for loans and advances and other financial assets

	2005			
	Retail	**Corporate and others**	**Non-specific [Note 5 (f)]**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Provision for impaired loans and advances	**9,815**	**59,788**	**138,839**	**208,442**
Provision for investments and others	**-**	**10,599**	**-**	**10,599**
Provision for other debtors	**-**	**363**	**-**	**363**
Write-off of impaired loans to income statement	**177,792**	**8,305**	**-**	**186,097**
Recovery of loans previously written off	**(62,888)**	**(31,294)**	**-**	**(94,182)**
Total	**124,719**	**47,761**	**138,839**	**311,319**

	2004			
	Retail	Corporate and others	Non-specific [Note 5 (f)]	Total
	AED'000	AED'000	AED'000	AED'000
Provision for impaired loans and advances	6,560	114,944	120,759	242,263
Provision for investments and others	-	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

26. 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,	
	2005	2004
	AED '000	AED '000
Net income for the year (AED'000) (Attributed to equity holders of the parent)	**1,739,350**	751,076
Number of ordinary shares outstanding	**86,619,520**	86,619,520
Earnings per share (AED)	**20.08**	8.67

The number of ordinary shares outstanding as of December 31, 2004 has been adjusted to reflect the bonus shares issued during 2005 [Note 18(a)].

27. Foreign restricted assets

Net assets equivalent to AED 49.800 million as of December 31, 2005 (2004 AED 48.723 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.

28. 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, 2005	2004
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	**4,004,935**	3,058,500
Deposits and balances due from banks	**7,066,495**	4,649,506
	11,071,430	7,708,006
Less: Deposits with central banks for regulatory purposes	**(962,735)**	(690,033)
Less: Deposits maturing after 3 months	**(1,952,150)**	(1,248,773)
	8,156,545 (a)	5,769,200 (b)
Increase in cash and cash equivalents – 2005 [(a) – (b)]	**2,387,345**	

	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)	

29. Related party transactions

(a) Certain "related parties" (such as, directors and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank and its subsidiaries in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties. Such related party transactions are disclosed below. Other "related party transactions" is disclosed in Notes 9 and 24 to these financial statements.

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

	December 31,	
	2005	2004
	AED '000	AED '000
Advances to customers	**409,221**	277,454
Deposits from customers	**541,148**	568,305
Letters of credit, guarantees and acceptances	**1,431,794**	989,661

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

Interest income	**32,186**	12,559
Interest expense	**19,412**	14,293
Other income	**43,968**	33,917

30. Interest rate sensitivity – 2005

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at December 31, 2005 was as follows:

	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Assets							
Cash and balances with central banks	2,683,725	-	-	-	-	1,321,210	4,004,935
Deposits and balances due from banks	4,719,527	576,200	1,247,706	38,636	9,185	475,241	7,066,495
Loans and advances (net)	15,147,936	2,415,928	1,330,087	3,018,404	238,476	118,598	22,269,429
Interest receivable and other assets	-	-	-	-	-	893,548	893,548
Investments in securities	3,257,786	998,135	75,459	17,343	369	6,741,038	11,090,130
Investment property	-	-	-	-	-	224,103	224,103
Property and equipment	-	-	-	-	-	193,827	193,827
Total assets	**25,808,974**	**3,990,263**	**2,653,252**	**3,074,383**	**248,030**	**9,967,565**	**45,742,467**
Liabilities and shareholders' equity							
Customers' deposits	18,056,096	2,071,500	1,431,526	1,191,637	510,350	6,743,683	30,004,792
Deposits and balances due to banks	2,124,362	1,057,391	25,287	-	-	293,191	3,500,231
Insurance and life assurance funds	-	-	-	-	-	260,448	260,448
Medium-term floating rate notes	2,295,625	-	-	-	-	-	2,295,625
Long-term loans	-	-	-	-	-	30,665	30,665
Interest payable and other liabilities	-	-	-	-	-	1,495,887	1,495,887
Minority interest	-	-	-	-	-	896,087	896,087
Shareholders' funds	-	-	-	-	-	7,258,732	7,258,732
Total liabilities and shareholders' equity	**22,476,083**	**3,128,891**	**1,456,813**	**1,191,637**	**510,350**	**16,978,693**	**45,742,467**
On Balance Sheet gap	3,332,891	861,372	1,196,439	1,882,746	(262,320)	(7,011,128)	-
Off Balance Sheet gap	(39,004)	7,655	(62,184)	75,168	18,365	-	-
Cumulative interest rate sensitivity gap - 2005	**3,293,887**	**4,162,914**	**5,297,169**	**7,255,083**	**7,011,128**	**-**	**-**
Cumulative interest rate sensitivity gap – 2004	5,815,503	6,661,215	6,060,127	6,887,179	7,136,889	-	-

The effective interest rate* on bank placements and certificates of deposits with central bank was 3.3% (2004: 1.63%), on loans and advances 7.04% (2004: 6.39%), on customer deposits 2.59% (2004: 1.82%) and on bank borrowings 3.22% (2004: 2.06%).

**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.*

31. Maturities of assets and liabilities - 2005

	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with central banks	4,004,935	-	-	-	-	4,004,935
Deposits and balances due from banks	5,114,345	154,559	994,013	787,746	15,832	7,066,495
Loans and advances - net	10,281,765	2,539,894	2,282,413	6,015,410	1,149,947	22,269,429
Interest receivable and other assets	117,175	776,373	-	-	-	893,548
Investments in securities	6,909,342	137,875	4,025,201	17,343	369	11,090,130
Investment property	-	-	-	3,007	221,096	224,103
Property and equipment	-	-	-	-	193,827	193,827
Total assets	**26,427,562**	**3,608,701**	**7,301,627**	**6,823,506**	**1,581,071**	**45,742,467**
Liabilities and shareholders' equity						
Customers' deposits	24,707,580	2,115,487	1,471,811	1,199,564	510,350	30,004,792
Deposits and balances due to banks	1,713,507	134,509	576,237	1,075,978	-	3,500,231
Insurance and life assurance funds	-	-	-	260,448	-	260,448
Medium-term floating rate notes	-	-	-	2,295,625	-	2,295,625
Long-term loans	-	-	-	-	30,665	30,665
Interest payable and other liabilities	1,405,609	20,635	31,162	38,383	98	1,495,887
Minority interest	-	-	-	-	896,087	896,087
Shareholders' funds	-	-	-	-	7,258,732	7,258,732
Total liabilities and shareholders' equity	**27,826,696**	**2,270,631**	**2,079,210**	**4,869,998**	**8,695,932**	**45,742,467**
Maturity profile 2004:						
Total assets	17,964,244	2,737,794	4,326,525	5,767,645	1,152,620	31,948,828
Total liabilities and shareholders' equity	18,834,342	1,839,082	1,996,602	4,248,362	5,030,440	31,948,828

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.

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

Geographic regions

	December 31, 2005			December 31, 2004		
	Assets	**Liabilities**	**Off Balance Sheet items**	Assets	Liabilities	Off Balance Sheet items
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
U.A.E.	**27,318,208**	**37,567,196**	**17,974,581**	18,821,967	25,709,039	12,871,070
Other Middle East countries	**5,563,432**	**2,629,987**	**552,066**	3,646,239	2,336,795	363,022
O.E.C.D.	**8,137,901**	**4,643,095**	**338,982**	5,569,845	2,757,562	387,246
Others	**4,722,926**	**902,189**	**189,872**	3,910,777	1,145,432	151,315
Total	**45,742,467**	**45,742,467**	**19,055,501**	31,948,828	31,948,828	13,772,653

Industry Sector

	December 31, 2005			December 31, 2004		
	Assets	**Liabilities**	**Off Balance Sheet items**	Assets	Liabilities	Off Balance Sheet items
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and Public Sector	**1,373,690**	**2,297,002**	**129**	1,250,160	1,866,040	105,378
Commercial & Business	**14,561,625**	**17,414,683**	**14,864,936**	10,275,987	8,864,918	10,344,188
Personal	**6,236,734**	**8,786,840**	**38,839**	5,666,106	8,691,314	25,815
Financial Institutions	**22,267,144**	**7,620,496**	**3,676,332**	11,518,851	6,173,826	3,191,894
Others	**1,303,274**	**9,623,446**	**475,265**	3,237,724	6,352,730	105,378
Total	**45,742,467**	**45,742,467**	**19,055,501**	31,948,828	31,948,828	13,772,653

33. Segmental information

	2005						
	Retail	Corporate	Financial Institutions	Treasury & Investment Banking	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income	547,869	358,939	54,644	(31,959)	2,283	42,808	974,584
Other income	232,371	327,329	96,017	411,954	813,714	250,887	2,132,272
Operating income	**780,240**	**686,268**	**150,661**	**379,995**	**815,997**	**293,695**	**3,106,856**
General and administrative expenses							**(776,887)**
Allowances for loans and advances and other financial assets							**(311,319)**
							2,018,650
Write off of cumulative translation adjustment on disposal of subsidiary							-
Income before taxes							**2,018,650**
Income tax							**(6,578)**
Net income for the year							**2,012,072**
Attributed to:							
Equity holders of the parent							**1,739,350**
Minority interest							**272,722**
							2,012,072
Segment Assets	**6,221,474**	**13,866,174**	**5,071,919**	**14,559,067**	**3,079,495**	**2,944,338**	**45,742,467**
Segment Liabilities	**6,557,000**	**23,982,772**	**1,254,838**	**1,630,646**	**771,368**	**3,391,024**	**37,587,648**

	2004						
	Retail	Corporate	Financial Institutions	Treasury & Investment Banking	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	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
Operating income	686,727	471,320	137,795	132,112	249,718	43,350	1,721,022
General and administrative expenses							(568,933)
Allowances for loans and advances and other financial assets							(312,470)
							839,619
Write off of cumulative translation adjustment on disposal of subsidiary							(10,165)
Income before taxes							**829,454**
Income tax							(4,083)
Net income for the year							**825,371**
Attributed to:							
Equity holders of the parent							751,076
Minority interest							74,295
							825,371
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

34. 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 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 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 9. 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.

35. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are marked to market daily.

Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Derivatives held for hedging purposes

The Bank deals in derivatives including forward exchange contracts, swaps, options and futures on behalf of its customers. These dealings with and exposure to financial markets are matched by equal and opposite dealings and exposure to corporate customers.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against currency risks and interest rate swaps to hedge against the interest rate risk arising from interest rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

				December 31, 2005				
				Notional amount by term of maturity				
Derivative Financial instruments	**Positive fair value**	**Negative fair value**	**Notional amount**	**Up to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**One year to 5 years**	**Over 5 years**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Forward foreign exchange contracts	102,051	80,399	14,073,684	11,741,612	427,028	1,231,038	674,006	-
Foreign exchange options (bought)	-	18,832	3,986,290	1,472,684	2,112,299	401,307	-	-
Foreign exchange options (sold)	18,832	-	3,986,290	1,472,684	2,112,299	401,307	-	-
Interest rate swaps	130,260	122,871	2,490,223	397,192	74,399	58,575	1,286,647	673,410
Caps bought	-	133	208,999	-	20,899	-	188,100	-
Caps sold	133	-	208,999	-	20,899	-	188,100	-
Futures contracts purchased (customers)	502	-	73,823	73,823	-	-	-	-
Futures contracts sold (customers)	-	4,029	141,155	135,070	6,085	-	-	-
Futures contracts sold (bank)	-	502	73,823	73,823	-	-	-	-
Futures contracts purchased (bank)	4,029	-	141,155	135,070	6,085	-	-	-
Total	**255,807**	**226,766**	**25,384,441**	**15,501,958**	**4,779,993**	**2,092,227**	**2,336,853**	**673,410**
December 31, 2004	387,472	410,876	33,210,054	12,479,186	3,541,553	13,254,725	2,820,786	1,113,804

36. Risk management

The Bank has senior management committees to oversee the risk management. The Credit Policy Committee (CPC) and Credit Risk Management Division (CRMD) define policies, processes and systems to manage and monitor credit risk. Bank's 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 adherence to all risk management policies and processes. 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 sectors.

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 is usually required.

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

Credit review procedures and loan classification

The Bank's credit review 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 asset 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 being substantially strengthened to provide more objectivity and granularity and also to comply with Basel II IRB guidelines.

If a credit 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 an 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, 2005, the Bank's other net foreign exchange exposure was not significant except for AED 204 million short position in Qatari Riyals (2004: AED 209 million) and AED 18 million long position in Pakistani Rupees (2004: AED 18 million) and AED 14 million in long Indian Rupees (2004: AED 55 million) and AED 22 million in long Egyptian Pound.

37. 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, 2005 of AED 445.96 million (2004: AED 234.946 million).

38. Capital adequacy

		December 31,	
		2005	2004
		AED '000	AED '000
Capital base	(a)	**7,146,899**	4,877,406
Risk weighted assets:			
On-balance sheet assets		**27,545,030**	20,014,697
Off-balance sheet assets		**8,788,359**	7,305,286
Total risk-weighted assets	(b)	**36,333,389**	27,319,983
Capital adequacy ratio [(a)/(b) x 100]		**19.67%**	17.85%

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

39. Overseas branches

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 income statement of the year ended December 31, 2004 as a result of the disposal of the above foreign subsidiary.

40. Proposed dividends

	December 31,	
	2005	2004
	AED '000	AED '000
Cash dividend of AED 2 per share (2004: AED 3.5per share)	**173,239**	275,608
Bonus shares	**-**	78,745
	173,239	354,353
Dividends per share (AED)	**2.0**	4.5

The proposed cash dividends shown above was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting on March 8, 2006. The 2005 financial statements were reissued to reflect these events.

41. Fund management

Makaseb Funds Company BSC (Subsidiary – Note 1) manages a number of equity funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

42. Comparative figures

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