Annual Report
2006

Mashreqbank بنك المشرق

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2006

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

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
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Telefax: 2226061 Telex: 45429 MSHQHO EM Cable: MASHREQBNK SWIFT: BOMLAEAD, Website : www.mashreqbank.com

Chairman's Report

Board of Directors

Chairman
Mr. Abdulla Bin Ahmed Al Ghurair

Vice-Chairman
Mr. Ali Rashid Ahmed Loutah

Director & Chief Executive Officer
H.E. 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

Mr. Abdulla Bin Ahmed Al Ghurair
Chairman

The extraordinary performance posted by the UAE Financial sector in 2005 had set a tone of high expectations for 2006. The overall economic activity remained extremely buoyant during the year. Economic growth fueled by high oil prices and infrastructure spending created a strong demand for banking products and services across the region.

We participated in all sectors of the economy registering an all-round growth in our core lines of businesses. Total Assets increased by 22% in 2006 to reach AED 56.7 Billion. Loans and Advances, including the recently introduced Islamic financing products, went up to AED 29.4 Billion, a growth of 32%. The bank maintained its conservative policy on liquidity management by keeping Advances to Deposits ratio at 83% and, at the same time, raising medium/long-term financing as an alternative source of funding. Customer Deposits increased from AED 30 Billion in 2005 to AED 34.6 Billion in 2006 and medium-term borrowing went up by 48%. Shareholders equity (excluding Minority Interest) improved marginally from AED 7.3 Billion to AED 7.4 Billion in 2006. The growth was impacted by the decline in the value of investment portfolio due to the depressed capital market. However, Capital Adequacy ratio remained very robust at 17.52%.

The Operating Income at AED 2.827 Billion is lower by 9% as compared to 2005. Interest margins, although under pressure from intense competition, remained healthy and the bank's Net Interest Income increased by 15% to reach AED 1.1 Billion. Fee and Other Income at AED 1.7 Billion is lower by 20% as compared to last year mainly due to lower Investment Income of our subsidiary, Oman Insurance Company on the back of depressed capital market. Excluding Investment Income, Other Income increased by 22% as compared to 2005. Operating Expenses went up by 33% to reach AED 1.03 Billion. This hefty increase mainly comes from investment in Human Resources and infrastructure building for future expansion.

Through a continuous focus on superior risk management practices, portfolio quality has improved significantly. Notwithstanding, as a prudent policy, we maintain a very healthy level of allowances for Loans and Advances. We added another AED 102 Million to General Allowances bringing the Total Allowances to AED 924 Million. NPL coverage improved from 2.16 times to 2.44 times and General Provision to Advances ratio remained high at 1.9%.

The Net Profit after tax and risk cost at AED 1.571 Billion is 10% lower than last year's record number of AED 1.739 Billion. The return on Average Assets at 3% and on Average Equity at 21% is one of the best in the country. In order to meet the ambitious growth plans of the bank, additional equity will be required. Therefore, your Board has decided to recommend a stock dividend of 30% to further strengthen the equity of the bank.

Operating Environment

The free fall of stock markets in 2006 wiped off billions from the market capitalization but could not dampen the buoyant economic sentiments. Barring capital markets, rest of the sectors of the economy performed extremely well. The year also witnessed many landmark transactions and initiatives launched by the public and private sector entities.

The year started with Dubai Port World's acquisition of the Peninsular and Steam Navigation Company followed by various other high profile acquisitions of international prime assets in UAE entities. This has established the UAE as a serious investor in the international market.

The long-awaited IPO of the second telecommunications operator, Emirates Integrated Telecommunications Company and the Dubai Financial Market were well received and were oversubscribed multiple times. A US$ 15 Billion global aerospace company was launched in Dubai which will participate in aerospace business globally, including development and management of airports.

Important Indicators

	2006	2005	2004	2003	2002
Advances To Customer Deposits	**85%**	74%	85%	79%	75%
Liquidity (Liquid Assets To Total Assets)	**42%**	47%	38%	37%	41%
Equity To Total Assets	**13.00%**	15.60%	14.80%	14.84%	13.82%
Return On Average Equity (Pre-Tax)	**21.55%**	28.84%	17.09%	16.25%	16.18%
Return On Average Equity (After-Tax)	**21.46%**	28.73%	16.99%	16.30%	15.75%
Return On Average Assets (Pre-Tax)	**3.05%**	4.40%	2.53%	2.33%	2.18%
Return On Average Assets (After-Tax)	**3.04%**	4.39%	2.52%	2.34%	2.12%
Efficiency Ratios	**36.48%**	25.00%	33.06%	36.30%	40.23%

Several mega projects were launched during the year like AED 100 Billion Sadiyat Island project. Tatweer unveiled their hospitality and tourism development project of 'Al Bawadi,' Dubai Holdings launched the new waterfront development - 'The Lagoons.' Road and Transport Authority in Dubai awarded AED 4 Billion contract for Phase-II of the Dubai Mono Rail project. The industry estimates the value of projects either planned or in the implementation stage at US$ 300 Billion.

Abu Dhabi restructured its investment bodies replacing the world's biggest investor Abu Dhabi Investment Authority with the new Abu Dhabi Investment Council. Abu Dhabi Economic Development Council was established to facilitate the development of Abu Dhabi emirate. The major shift in policy announced is the mandate to Abu Dhabi Investment Council to invest locally and internationally.

Nominal GDP of the UAE after growing by over 20% for the last 2 years slowed a bit in 2006 and is expected to grow at 14% to reach US$ 154 Billion. The surging oil revenue is expected to boost the current account surplus to US$ 41 Billion which is 27% of the GDP. The consolidated budget of the country had been in surplus since 2005. This year it is expected to reach AED 40 Billion which is over 7% of GDP.

The real estate market including rentals remained high as demand outpaced the supply of office space and residential units. The rising inflation posed a threat but Government policies aimed at restricting it to manageable level had a mitigating effect.

The strong credit demand led to further credit expansion. During the first 6 months of the year, credit to residents and non-residents went up by 16% whereas Total Deposits of the banking sector went up by 7%. In short, the operating environment was bullish, regulatory and fiscal reforms were on course, and Government policies were aimed at facilitating the growth which enabled the financial sector to post excellent results.

Future Outlook

Despite the weak capital market and the rising inflation, the overall economic outlook is overwhelmingly positive based on large current accounts and budget surplus, high Government spending, successful implementation of liberal economic policies and strong corporate earnings. The economic fundamentals are sound and the country is poised for unabated growth in the short to medium term.

Your bank has invested in the right infrastructure and is ready to leverage the market opportunities for a yet another successful year in 2007. Our strategy is to dedicate optimum resources on high growth areas within our core businesses and, also to focus on new lines of businesses like Investment banking, Islamic banking and Priority banking which have extremely high growth potential. Our plans are drawn with stretched targets and we are confident to deliver superior returns to our stakeholders in 2007.

Before I close I would like to thank our employees for their dedication and hard work without which this performance would not have been possible. I would also like to thank all our customers, the Government of the UAE and the Central Bank of the UAE for their valued support.

Thank you.

Abdulla Bin Ahmed Al Ghurair
Chairman

Chief Executive Officer's Review

I look back at the accomplishments of 2006 with great satisfaction as during the year significant progress was made in several key areas. We steadfastly stayed on course and followed our well-charted strategy to build Mashreq franchise for a sustainable long-term growth. The hallmark of our strategic priorities remained, creating a sustainable competitive advantage through superior quality, introducing new products and services, improving productivity and efficiency, optimizing risk reward equation by managing risk well and building a talent pool of human capital.

The Retail Banking business was re-positioned in the wake of changing business environment and several new services / products were launched to diversify the revenue and improve the quality of earnings. The newly-established businesses of Investment Banking and Business Banking proved highly successful thereby consolidating our position in the market and enhancing the Fee Income contribution.

The sharpened focus on Service Quality and Process Re-engineering brought a marked improvement in Service Delivery standards. Risk Management remained a core competency of the bank. The prudent risk management policies and state-of-the-art tools and techniques helped us to improve asset quality and reduce credit costs.

Our continuous investments in our people enabled us to attract and retain the best talent. Employment and development of UAE Nationals remained our high priority and we achieved significant success in this area by partnering with Emirates National Development Program (ENDP) and Higher Colleges of Technology (HCT).

H.E. Abdul-Aziz Abdulla Al-Ghurair
Chief Executive Officer

Fitch Ratings upgraded Mashreqbank's Issuer Default rate from “A-" to “A”, Short Term rating from “F2” to “F1” with stable outlook. In 2006, Mashreqbank was named as the best bank in the UAE by the leading international finance journal, Euromoney magazine.

Corporate and Investment Banking

Traditional areas of business, such as contracting finance and trade finance have continued to perform well, supporting our clients in their expansion. Our relatively new business finance operation focusing on the middle market segment of the economy continued to show strong growth, and significantly expanded its market penetration. Staffing was strengthened, experienced resources were brought on board, and geographical coverage expanded. As a result, the importance of this market segment grew significantly making it a very meaningful contributor to the bank's performance. Investment banking facilitated clients' access to debt and equity capital markets and became our fastest growing business area in 2006. The Investment Banking team, which was continuously strengthened throughout the year, closed a number of flagship transactions, the most noteworthy being the US $600 million syndicated loan lead arranged for Dubai International Capital and the US $ 60mm syndicated facility for i2 Etisalat. In addition, we were appointed Mandated Lead Arranger for several high profile project finance transactions in the region, including the US$ 1.49 billion facility for Emirates Sembcorp Water & Power (Fujairah 2), US$ 2.5 billion facility for Equate Petrochemicals, Kuwait, US$ 2.5 billion facility for Orascom Telecom, Egypt and US$ 2 billion facility for Reliance

Petroleum, India. We also raised more than US$ 11 billion, while serving as a receiving bank in the IPO's of Tamweel, EITC, DFM and Gulf Navigation. We believe that this particular area presents significant opportunities of growth for the Bank. Our Qatar presence was beefed up and a very experienced management resource brought on board to run it. Marketing staff was also increased, resulting in an almost immediate positive impact on the Group's performance.

Strong demand for credit from our clientele resulted in a growth of over 30% in the corporate loan book. Corporate and Investment banking revenue for the year grew by 20% and contributed about a third of the banking revenue of Mashreqbank Group's continuous focus on credit risk management and a beginning economy allowed us to maintain a solid portfolio quality. Throughout the year, the Corporate and Investment Banking Group has been striving to improve on the quality of the service provided to our clients. A new function has been created to monitor and constantly improve on service delivery quality.

Retail Banking

Mashreqbank Group offers Retail Banking products and services through the bank and its wholly owned subsidiary, Osool-A Finance Company. Both entities have different products and serves different segments of the market.

The Quality road we had embarked on last year with our "Mission 3Qs" served us well in the year under review. An elaborate Quality infrastructure has been set-up across the business to ensure proper measurement and monitoring of Quality standards. It allowed us to establish an even greater "relationship" focus for the customer segments we serve. We enhanced our investment on staff training and process re-engineering to fulfill our desire to be the best brand in the region delivering world class financial services to our customers.

We are extremely proud of our distribution network and we increased our physical touch points for our customers to 222 over the year. We now have 47 branches, 10 Units of Osool, three Customer Service Centres complemented by 162 off-site ATMs so our customers are never far from accessing their funds from anywhere in the UAE. This physical network is strengthened by our presence in cyber space where we saw a sharp increase in our Mashreqonline usage with our new and improved look and subscriptions to e-statements continued to grow. Our 24x7 call center continues to offer world class service to add to the distribution mix.

Innovation continued as a theme for the bank and we were the first to offer the "Easy Saver" product which offers the highest interest rate option in the market to support our customer's savings behavior. We also launched "Mashreqbank UAE Gate Prepaid MasterCard," the first of its kind, with an e-Gate card with payment functionality. This product received the MasterCard Product award recognizing excellence in card innovation.We also saw the single largest draw in the history of our flagship Mashreq Millionaire product when a customer won AED 4 million in a single draw! We also crossed the milestone of our 150th millionaire customer - Mashreq truly makes more millionaires!

Our credit cards business continued to offer increased value to our customer base. Not only did our card base increase but we also invested in our acquiring network. We were the first bank to be ready with EMV compliant solution for our merchant partners and we updated our entire fleet of POS terminals. We continued re-carding our debit card customers with a chip enabled debit card so they too can access the rich reward and loyalty program that had been previously available only for our credit card customers.

Contributing over a third of the Group's banking revenues, our Retail business assets grew by 13% and revenue by 20% as compared to previous year.

Treasury and Capital Markets

2006 was a mixed year for the regional capital markets, with most stock markets in a distinctly bearish mood, but fixed income issuance and primary market activity remaining strong. Treasury and Capital Markets continued to grow and invest in its business. Several key initiatives were undertaken during the year focusing on improving delivery of product to the customer. This business contributed about 9% of the banking revenue of the Group.

Mashreq Securities introduced its online trading facilities during 2006 which provides clients with fast and reliable access to both the Dubai Financial Market and the Abu Dhabi Securities Market. The online trading facility is complemented via dedicated Call Centers established to assist clients with their trading activities. The past year also saw the establishment of several dedicated Customer Lounges by Mashreq Securities for its VIP clients. The lounges create a friendly and personalized trading environment for our preferred customers.

In the area of Asset Management, Mashreqbank launched two additional mutual funds under the Makaseb umbrella. The Makaseb Kuwait Equity Fund and the Makaseb Oman-Bahrain Equity Fund provide greater flexibility to investors to access the dynamic and fast growing Gulf economies. Along with our existing top performing single and multi-country equity funds, Mashreqbank is well on its way to achieving a pre-eminent position in the regional investment management space.

Mashreq Capital, our DIFC subsidiary initiated the Emerging Markets Credit Opportunities Fund. The Fund is the first DFSA approved and regulated multi-strategy fund. The Emerging Markets Credit Opportunities Fund is expected to provide investors with attractive total rates of return through exposure to credit related investment opportunities in emerging markets globally.

Financial Institutions

Year 2006 marks the successful completion of 10 years of Correspondent Banking business in Mashreqbank. We have grown from a small team of 20 people in Dubai to over 125 professionals in Dubai, New York, Hong Kong, London, India, Karachi & Dhaka. The revenues have increased more than 15 times over the decade. Revenue contribution increased to 7.2% of the banking revenue of the Group. Quality service has been the key word for success. We have been able to position ourselves as a service provider of cross border execution capabilities. Branches at money centers like New York, Hong Kong, London & Mumbai have been providing cross border trade and payment facilities to the customers. The representative offices at Karachi and Dhaka are keeping a close relationship in the respective countries.

We have been able to exploit our technological and operational capabilities to improve efficiency and response to customer queries. Overseas branch operations for two branches have been moved to Dubai under Centralized Operations Unit. We have become a member of Euro Clearing House & CHIPS. The enhanced Web based KYC system has been implemented to facilitate enhanced due diligence. We have implemented the new risk ratings for banks in line with Basel II recommendation.

We intend to expand our network and one or two more offices / branches at overseas locations are planned during year 2007. We have reviewed our payment business capabilities and have concluded to have a more sophisticated payment system at New York. The system will be available by mid of 2007 capable of handling increased business volume and offer a wider range of products to meet the customer needs.

Al Badr Islamic Banking

The establishment of Islamic banking as a separate line of business has been part of our strategy for a while. This year we were able to materialize our aspiration and a separate Business Division was launched. We have followed a two-pronged strategy by setting-up a separate subsidiary with a paid-up capital of AED 500 Million, Al Badr Islamic Finance Company, which is licensed by the Central Bank of the UAE as an Islamic Finance company. We also launched Islamic Banking products through a separate window within the bank under Al Badr brand. Both the initiatives are launched during the year. Al Badr Finance Company opened its first branch in the month of December.

The bank has taken extra care to ensure that the Islamic balance sheet and Income and Expenses are totally separate and do not mix with the conventional one. We also have a Sharia Board which is represented by well-known scholars and they not only approve all products and services but also oversee that all policies and procedures are Sharia compliant.

In the first year of operations, we have built a book of AED 827 Million of assets and AED 750 Million of liabilities.
It is a humble beginning but our plans are ambitious.

Insurance

Our Insurance subsidiary, Oman Insurance Company which had an extraordinary year in 2005 continued to grow its insurance business and became the first insurance company in the market with premium revenues of over AED 1 Billion. The profit from Insurance business went up by 32% to reach AED 148 Million. However, the capital market decline impacted their Investment Income which reduced the overall profit from AED 755 Million in 2005 to AED 203 Million in 2006.

Risk Management

Mashreqbank has a well-developed Risk Management frame work comprising policies, analytics and processes to manage the many components of risk - Credit Risk, Market Risk and Operational Risk. The overall objective is to support growth of high quality earning assets while managing risks of the portfolio within acceptable boundaries. In terms of Basel II, the Bank is preparing to adopt Internal Rating based approach for Credit Risk, Standardized approach for Market Risk and Basic Indicator approach for Operational Risk. Thus, the Bank is well-prepared for implementation of the guidelines.

During the past two years, the Bank completed a comprehensive Credit Risk Analytics project. The bank has developed new risk rating tools for commercial credits and scoring models for retail products; it has adopted a new universal risk rating scale covering the entire portfolio. Sophisticated statistical techniques are used for estimating default probabilities, for calculating economic capital and for measuring customer / product profitability. Despite a significant growth in assets, Bank's 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.

We measure Corporate Credit Risk through quantitative and qualitative analysis, and assign a default probability rating to the borrowers. Retail Credit Risk is managed throughout a borrower's credit cycle. Credit policies and product programs are approved independently by risk management. 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 has commenced using scoring in the retail credit and marketing processes. We manage market risk through appropriate policies, limit setting and monitoring, stop loss mechanisms, and allocating economic capital based upon value at risk and portfolio stress testing.

Operational Efficiency

The latter half of 2006 saw the consolidation of all business operations under one umbrella. The objective of setting-up the new Operations Group is to ensure seamless end customer delivery across the business segments with consistent quality and minimized operations risk.

The resultant synergies of such a re-organization will be beneficial both to transactional productivity as well as operational efficiency. Some early benefits have already resulted from the merger of retail and wholesale credit operations and the integration of the Bank's global correspondent banking operations into the UAE foreign trade and payments divisions. Also, centralization of non-financial transactions processing units like account opening & maintenance, customer service and ATM & Cash pooling will further enhance efficiency, productivity and standardization.

In order to update its IT infrastructure to meet the challenges of the future, Mashreq engaged a world-renowned IT consulting organization to study its IT systems and to recommend a five-year integrated business-IT strategy. The key objective of this initiative was to ensure that Mashreq maintains its position as a business and technology leader in the region. Based on the study, the five-year plan for technology refresh has been approved and was launched during the year.

A new application was developed to support the Islamic banking initiative, namely Badr Al Islami. New systems were purchased to support the bank's business in the Securities and Bancassurance areas. The online trading system was enhanced to achieve end-to-end automation, from capturing trade to maintaining client position. A new system was implemented to record gold exchange trades.

In order to safeguard and enhance our customers' confidence in our services, Mashreq online banking certification was upgraded to ISO27001.

Audit, Review & Compliance

This function was restructured during the year to better align itself with the Bank's needs. It is totally independent of both business and line functions; it is responsible for carrying out independent audits and reviews of Mashreqbank's entire Credit Portfolio, all the Operating, Technology, Business, Functional and Support areas to assess the adequacy of the controls in keeping with the Bank's defined risk appetite and directives. Its methodology continues to evolve to deal with the current and immerging risks, dimensions, policies and processes of the Bank.

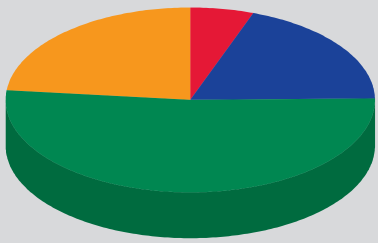
The Group provides assurance to the Board of Directors, CEO and Senior Management on the adequacy of controls in the Bank, while promoting best practice.

The Compliance arm provides ongoing critical support in ensuring that the Bank strictly observes all the regulatory and anti money laundering requirements it is subject to. Mashreqbank utilizes a world class automated AML transaction monitoring system coupled with a client screening solution that is second to none.

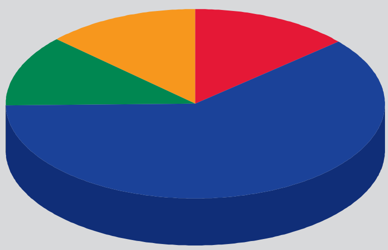
Human Resources Development

In keeping with the bank's mission and corporate values, training and developing employees continued to be the key focus of the organization. 2006 was a record year for training which saw over 450 programs and over 12,000 training man days. In addition to the various in house programs, many accredited external organizations were identified to certify and train staff in specialized fields. We tied up with the Securities and Investment Institute, UK (SII) to provide certification to our entire investment team and continued our liaison with Institute of Leadership Management (ILM, UK) for certification in Leadership and supervisory skills. In order to embed "sales and service"

ASSETS	**2006**	2005
Other Assets	**5.5%**	4.1%
Cash And Bank Balances	**19.3%**	23.8%
Advances	**51.8%**	47.8%
Investments	**23.4%**	24.3%



LIABILITIES	**2006**	2005
Long Term And Other Liabilities	**13.6%**	12.4%
Customer Deposits	**61.1%**	64.5%
Bank Deposits	**12.3%**	7.5%
Shareholders' Equity	**13.0%**	15.6%



oriented culture, we initiated a series of Sales & Service programs across the Retail Banking group. We also undertook the task of training our entire staff on the bank's new brand direction. eLearning programs were launched to bring learning to the staff at their desktop and over 3000 staff went through different internal and external programs.

Nationals' training and development continued to be another area of great importance. Comprehensive training programs were designed for graduate and high school batches to provide them with a combination of classroom programs on banking and customer service as well as on the job training at Mashreq branches. A "Fast Track" program was designed to prepare selected National employees for the role of Local Market Managers.

UAE Nationals' recruitment was a strategic priority for us. Mashreqbank partnered with Emirates National Development Program to train & recruit 80 front line UAE national staff for different positions across the branches. We are the first bank to sign a partnership "MOU" with the Higher Colleges of Technology that will result in several exchanges between the 2 institutions over the years to come. Through a focused approach we were able to attract 280 UAE Nationals to join the bank which helped us to exceed our target of the Emiratisation percentage. The percentage of UAE National employees by end of 2006 had reached over 28% which is 6% more than 2005 year-end number thus exceeding the annual target of 4% growth.

Conclusion

Superior performance each year raises the bar and becomes a benchmark for the future. The review of our operations as glanced across above reassures us of our preparedness to meet the challenge. The vibrant UAE economy will certainly add to our efforts. Our investment in distribution network, IT infrastructure, operational efficiency, risk management and human capital augurs well for the continued profitable growth of the bank in 2007 and beyond.

I am thankful to all Mashreq employees who have always risen to the occasion and have worked as a close knit team to achieve such excellent results year after year.

Thank you.

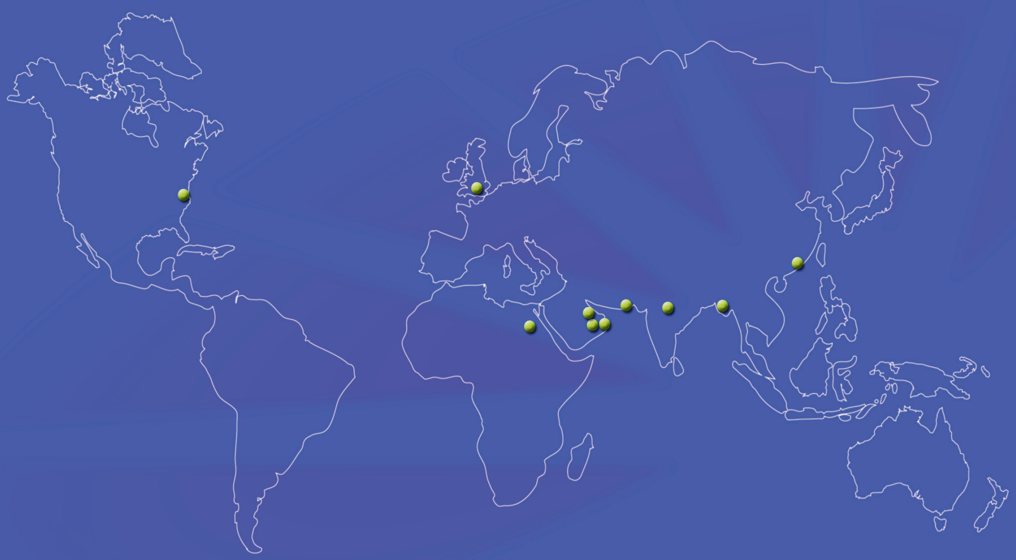
Abdul-Aziz Abdulla Al-Ghurair
Chief Executive Officer

Worldwide Presence

UAE BRANCHES

	Tel	Fax
ABU DHABI		
Abu Dhabi Main	02 - 6127201	02 - 6269550
Mushrif	02 - 4079209	02 - 4431717
Al Salam	02 - 6967700	02 - 6742482
Muroor	02 - 4198219	02 - 4481821
Baniyas	02 - 5048214	02 - 5822115
Khalidia	02 - 6937805	02 - 6673883
Sh. Zayed 2nd Str.	02 - 6178797	02 - 6214052
Mussaffah	02 - 5555051	02 - 5555052
Al Falah Street	02 - 6416405	02 - 6412799
Al Mina Center	02 - 6734647	02 - 6734840
AL AIN		
Al Ain Main	03 - 7077220	03 - 7645602
Al Ain AIT	03 - 7077319	03 - 7668896
DUBAI		
Jumeirah	04 - 4077623	04 - 3452179
Souk Al Kabir	04 - 2098105	04 - 2266783
Sheikh Zayed Road	04 - 3212573	04 - 3212574
Jebel Ali	04 - 8081210	04 - 8816628
Aweer	04 - 3333727	04 - 3333670
Burjuman	04 - 5097323	04 - 3967105
Riqa	04 - 2211120	04 - 2233785
Ghusais	04 - 2175104	04 - 2676347
Mall Of Emirates	04 - 3410107	04 - 3410073
Zabeel	04 - 3340313	04 - 3342710
Rashidiya	04 - 2857008	04 - 2860373
Dubai Marina - Seef Tower	04 - 3609944	04 - 3608843
Murooj	04 - 3434452	04 - 3434793

	Tel	Fax
Dubai Health Care City	04 - 3624760	04 - 3624759
Port Saeed	04 - 2957556	04 - 2956043
Khor Dubai	04 - 3534000	04 - 3531854
Hor Al Anz	04 - 2623100	04 - 2662887
Al Khaleej	04 - 7067710	04 - 2723786
DIC	04 - 3632000	04 - 3632205
SHARJAH		
Sharjah Main	06 - 5118227	06 - 5689590
King Abdul Aziz	06 - 5077606	06 - 5745334
Buhaira	06 - 5742888	06 - 5744446
Al Khan	06 - 5772282	06 - 5772977
Sharjah Ind. Area	06 - 5344747	06 - 5340188
Sharjah Gold Centre	06 - 5660560	06 - 5668599
DHAID		
Dhaid	06 - 8027419	06 - 8822416
FUJAIRAH		
Fujairah	09 - 2221100	09 - 2226860
KHORFAKKAN		
Khorfakkan	09 - 2385295	09 - 2387189
AJMAN		
Ajman Main	06 - 7017319	06 - 7426690
Grand Station	06 - 7430300	06 - 7431133
KALBA		
Kalba	09 - 2777430	09 - 2778950
DIBBA		
Dibba	09 - 2444230	09 - 2443831
RAS AL KHAIMAH		
Ras Al Khaimah Main	07 - 2361644	07 - 2363620
Nakheel	07 - 2281695	07 - 2281880
UMM AL QUWAIN		
Umm Al Quwain	06 - 7666948	06 - 7664948



CUSTOMER SERVICES UNIT

	Tel	Fax
ABU DHABI		
Madinat Zayed	02-6312578	02-6310776
DUBAI		
Lamcy Plaza	04-3348050	04-3356313
EPPCo	04-3985854	04-3980727
SHARJAH		
Sahara Mall	06-5319550	06-5319551

SUBSIDIARIES

	Tel	Fax
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
Al Badr Islamic Finance (PJSC)	04-2955206	04-2949931
Mashreq Capital (DIFC) Ltd.	04-2223333	04-2283491
Al Yamama Services FZ LLC	04-2223333	04-2283491
BAHRAIN		
Makaseb Funds Co. BSC	973 17 535455	973 17 535405
Makaseb Funds Co. BSC II		
Makaseb Funds Co. BSC III		

BRITISH VIRGIN ISLANDS

Roya Executive Ltd.
Wickhams Cay, PO Box 662,
Road Town, Tortola

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Road Town, Tortola

Orriston Limited
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QATAR

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SWIFT : MSHQ IN BB
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Bangladesh
Tel: 88 02 9550761
Fax: 88 02 7124195

Pakistan
Karachi
Tel: 92 21 565 6830
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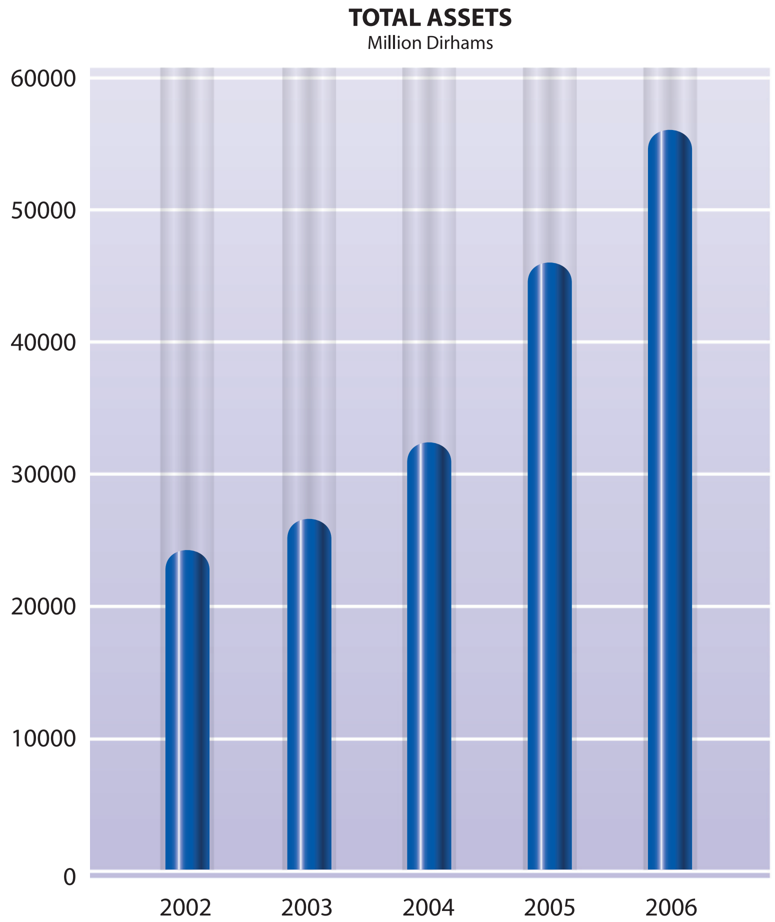
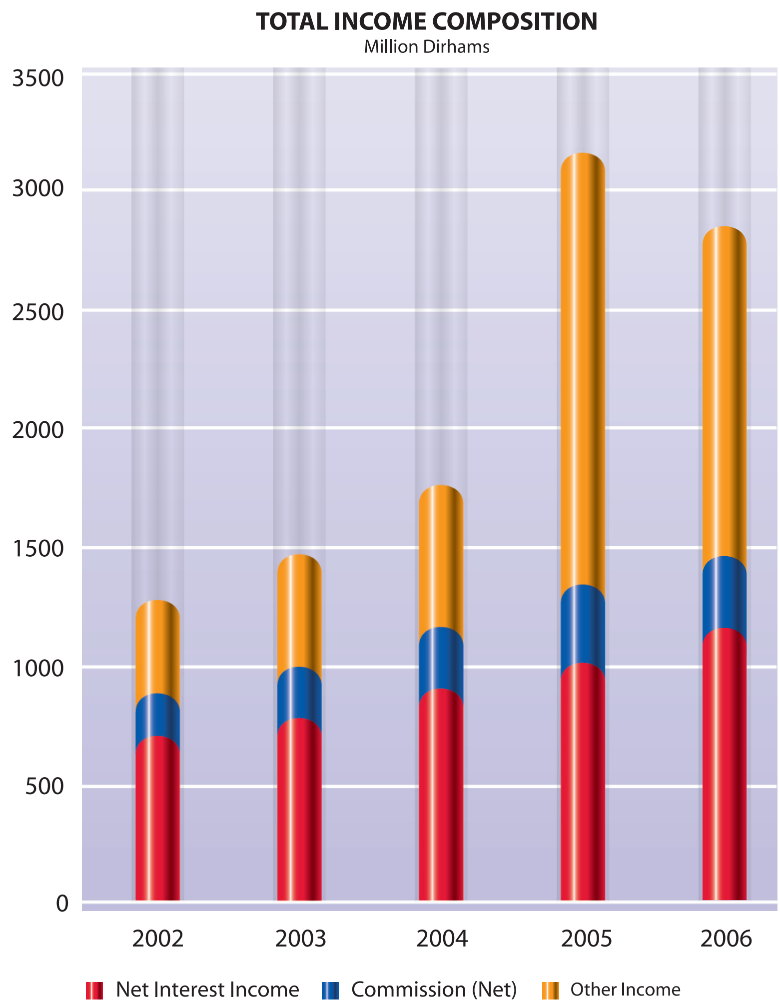
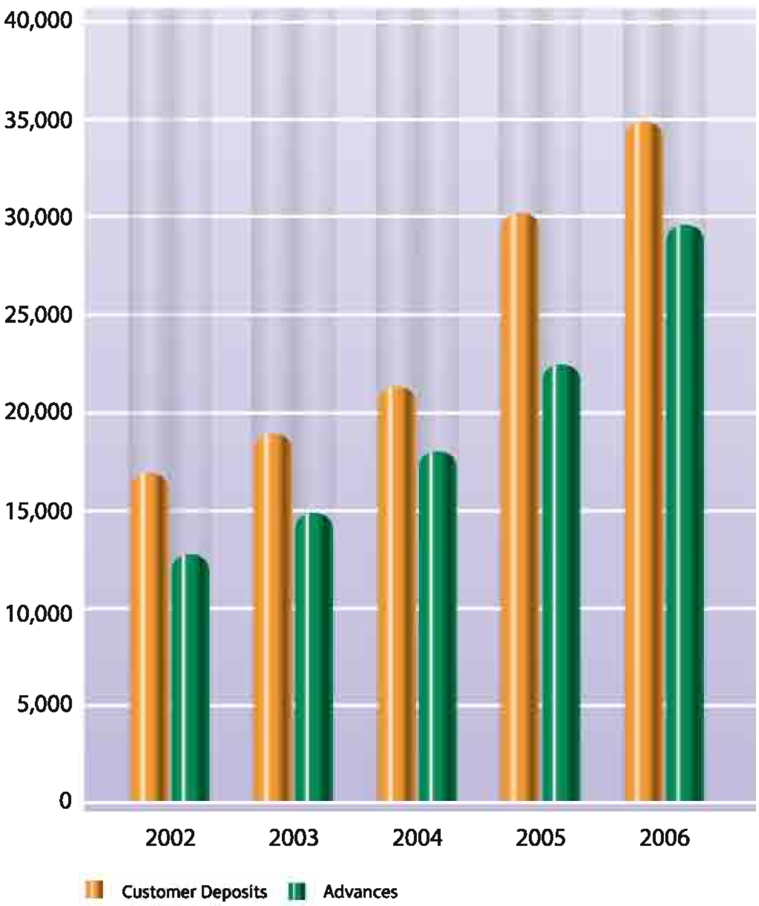
Financial Highlights

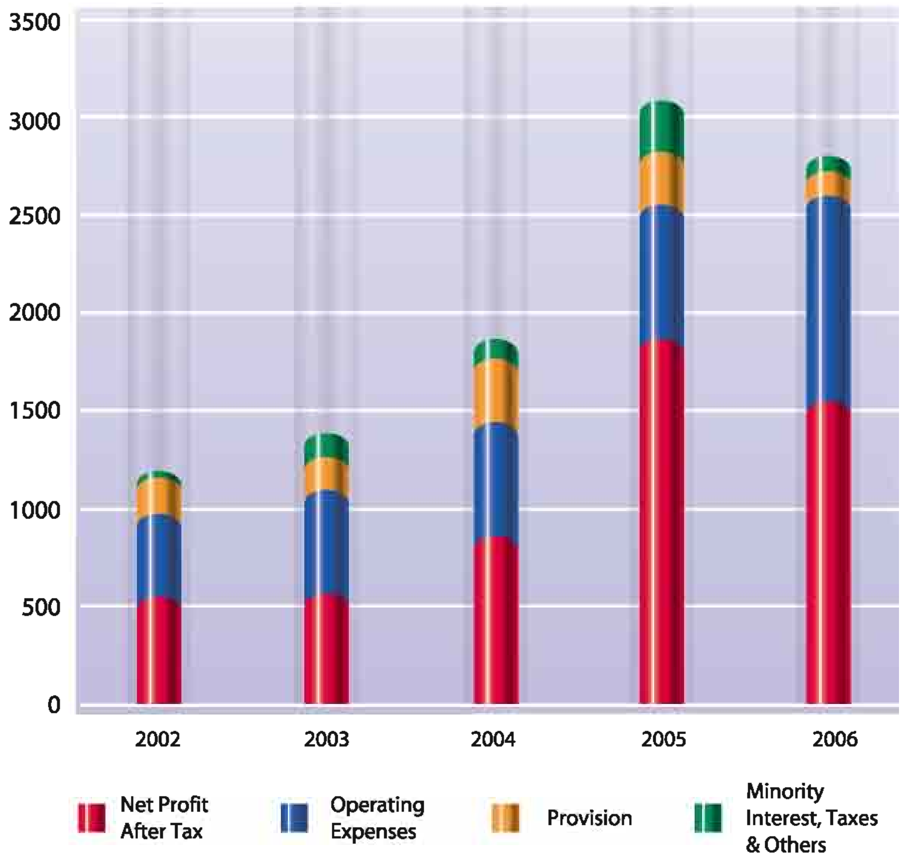

TOTAL ASSETS
Million Dirhams
60000
50000
40000
30000
20000
10000
0
2002
2003
2004
2005
2006


TOTAL INCOME COMPOSITION
Million Dirhams
3500
3000
2500
2000
1500
1000
500
0
2002
2003
2004
2005
2006
Net Interest Income
Commission (Net)
Other Income

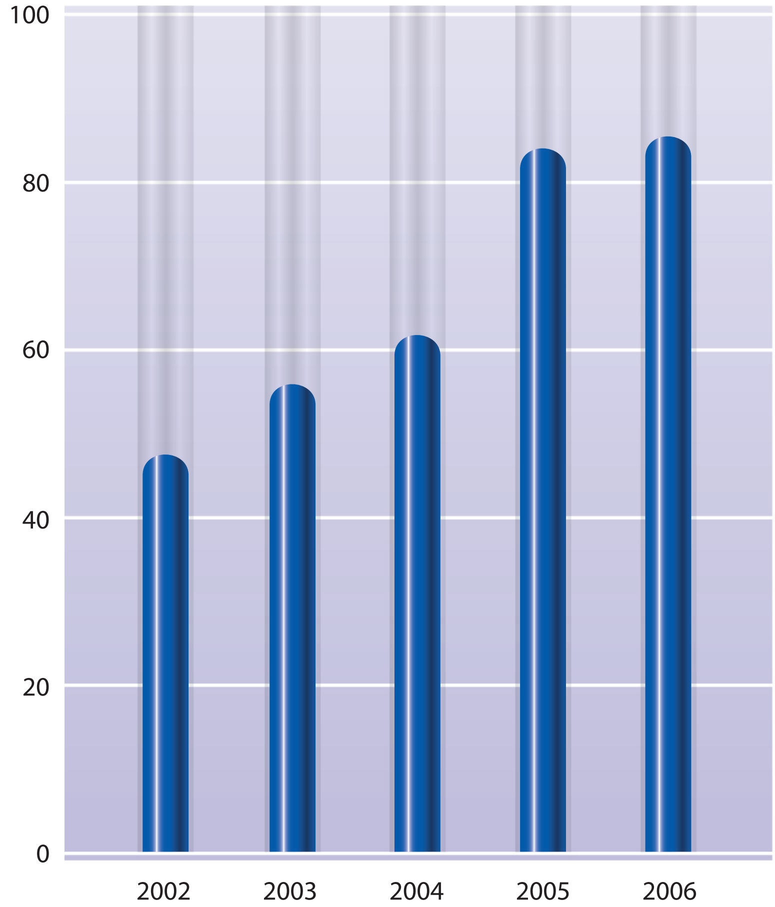
CUSTOMER DEPOSITS AND ADVANCES
Million Dirhams



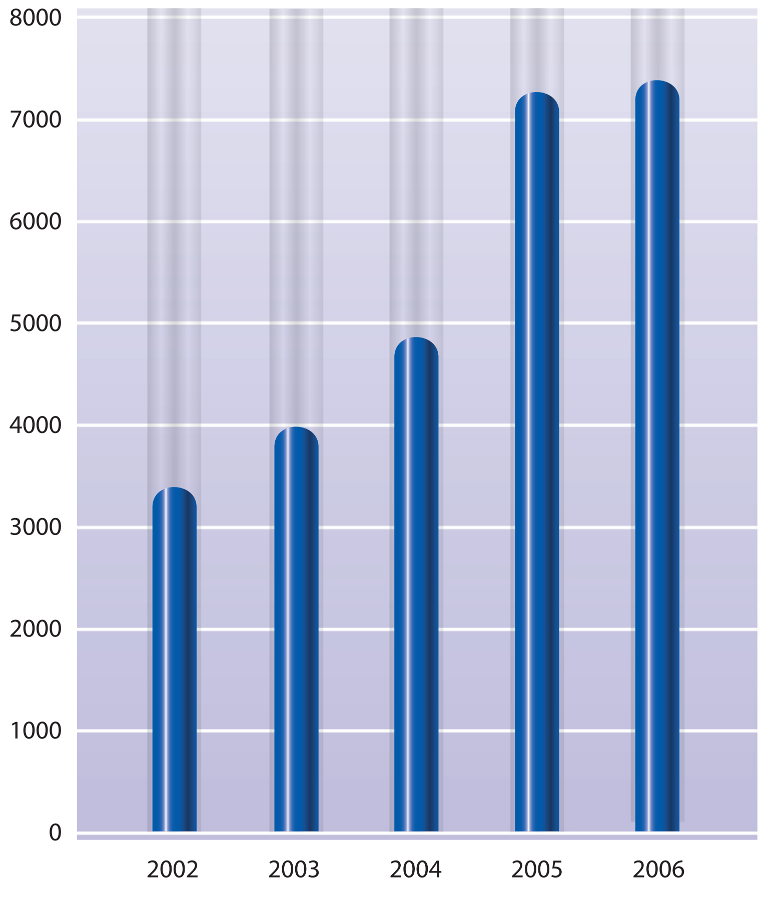
GROWTH PATTERN OF GROSS INCOME, OPERATING COST & NET PROFITS, AFTER TAX



BOOK VALUE PER SHARE
Dirhams



SHAREHOLDERS' EQUITY
Million Dirhams



Independent Auditor's Report

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mashreqbank psc ("the Bank") and Subsidiaries (collectively "the Group") (a Public Shareholding Company), which comprise the consolidated balance sheet as of December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006, and its financial performance for the year then ended in conformity with the accounting policies described in Note 2 to the financial statements and as per format of circular 445 of 1987 issued by Central Bank of the United Arab Emirates.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of accounts. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Bank's Articles of Association which might have materially affected the financial position of the Group or its financial performance.

Deloitte & Touche

Saba Sindaha (Reg. No. 410)

Dubai
February 5, 2007

Group Financial Statements

Consolidated Balance Sheet
as of December 31

	Note	2006 AED'000	2006 US$'000 Equivalent	2005 AED'000	2005 US$'000 Equivalent
Assets					
Cash and balances with central banks	5	**2,405,688**	**654,965**	4,004,935	1,090,372
Deposits and balances due from banks	6	**8,556,912**	**2,329,679**	7,066,495	1,923,903
Loans and advances (net)	7	**28,572,233**	**7,778,991**	22,269,429	6,063,008
Islamic financing and investment products	8	**829,014**	**225,705**	-	-
Customer acceptances		**1,157,635**	**315,174**	800,164	217,850
Interest receivable and other assets	9	**1,624,170**	**442,192**	893,548	243,274
Investment in securities	10	**12,935,449**	**3,521,766**	11,090,130	3,019,366
Investment property	11	**361,739**	**98,486**	224,103	61,014
Property and equipment	12	**302,275**	**82,296**	193,827	52,771
Total assets		**56,745,115**	**15,449,254**	46,542,631	12,671,558
Liabilities					
Deposits and balances due to banks	13	**6,988,150**	**1,902,573**	3,500,231	952,962
Customers' deposits	14	**33,908,235**	**9,231,755**	30,004,792	8,169,014
Islamic customers' deposits		**747,890**	**203,618**	-	-
Insurance and life assurance funds	15	**373,940**	**101,807**	260,448	70,909
Customer acceptances		**1,157,635**	**315,174**	800,164	217,850
Interest payable and other liabilities	16	**2,199,236**	**598,757**	1,495,887	407,266
Medium-term floating rate notes	17	**3,397,525**	**925,000**	2,295,625	625,000
Long-term loans	18	**23,541**	**6,409**	30,665	8,349
Total liabilities		**48,796,152**	**13,285,093**	38,387,812	10,451,350
Equity					
Capital and reserves					
Share capital	19(a)	**866,195**	**235,828**	866,195	235,828
Statutory and legal reserves	19(b)	**469,453**	**127,812**	468,839	127,645
General reserve	19(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment		**(11,449)**	**(3,117)**	(16,005)	(4,357)
Investments revaluation reserve		**184,220**	**50,155**	1,467,341	399,494
Retained earnings		**5,557,149**	**1,512,973**	4,160,362	1,132,688
Equity attributable to equity holders of the parent		**7,377,568**	**2,008,595**	7,258,732	1,976,242
Minority interest	20	**571,395**	**155,566**	896,087	243,966
Total equity		**7,948,963**	**2,164,161**	8,154,819	2,220,208
Total liabilities and equity		**56,745,115**	**15,449,254**	46,542,631	12,671,558

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

The financial statements on pages 23 to 62 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	2006 AED'000	2006 US$'000 Equivalent	2005 AED'000	2005 US$'000 Equivalent
Interest income	22	**2,878,354**	**783,652**	2,024,336	551,140
Income from Islamic financing and investment products	23	**32,052**	**8,726**	-	-
Total interest income and income from Islamic financing and investment products		**2,910,406**	**792,378**	2,024,336	551,140
Interest expense	24	**(1,763,923)**	**(480,240)**	(1,049,752)	(285,802)
Distributions to depositors - Islamic financing		**(28,505)**	**(7,761)**	-	-
Net interest income and income from Islamic products net of distributions to depositors		**1,117,978**	**304,377**	974,584	265,338
Net commission income		**300,888**	**81,919**	313,331	85,306
Other income	25	**1,408,572**	**383,494**	1,818,941	495,219
Operating income		**2,827,438**	**769,790**	3,106,856	845,863
General and administrative expenses	26	**(1,031,470)**	**(280,825)**	(776,887)	(211,513)
Allowances for loans and advances and other financial assets	27	**(146,604)**	**(39,914)**	(311,319)	(84,759)
Income before taxes		**1,649,364**	**449,051**	2,018,650	549,591
Income tax		**(6,622)**	**(1,803)**	(6,578)	(1,791)
Net income for the year		**1,642,742**	**447,248**	2,012,072	547,800
Attributed to:					
Equity holders of the parent		**1,570,640**	**427,618**	1,739,350	473,550
Minority interest	20	**72,102**	**19,630**	272,722	74,250
		1,642,742	**447,248**	2,012,072	547,800
Earnings per share	28	**AED 18.13**	**US$ 4.94**	AED 20.08	US$ 5.47

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

Consolidated Statement of Changes in Equity
for the year ended December 31, 2006

	Share capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total AED'000	Total US$'000
At December 31, 2004	**787,450**	**393,984**	**312,000**	**(9,845)**	**516,459**	**2,850,220**	**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) recognised 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	**-**	**-**	**-**	**(6,160)**	**950,882**	**1,739,350**	**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**	**(16,005)**	**1,467,341**	**4,160,362**	**7,258,732**	**896,087**	**8,154,819**	**2,220,208**
Changes in fair value of investments during the year	-	-	-	-	(1,283,121)	-	(1,283,121)	(352,849)	(1,635,970)	(445,404)
Overseas entities' translation adjustment	-	-	-	4,556	-	-	4,556	-	4,556	1,240
Total income/(expenses) recognised directly in equity	-	-	-	4,556	(1,283,121)	-	(1,278,565)	(352,849)	(1,631,414)	(444,164)
Net income for the year	-	-	-	-	-	1,570,640	1,570,640	72,102	1,642,742	447,248
Total income for the year	**-**	**-**	**-**	**4,556**	**(1,283,121)**	**1,570,640**	**292,075**	**(280,747)**	**11,328**	**3,084**
Transfer to statutory and legal reserves	-	614	-	-	-	(614)	-	-	-	-
Dividend paid	-	-	-	-	-	(173,239)	(173,239)	(35,441)	(208,680)	(56,815)
Share of minority in newly formed subsidiaries	-	-	-	-	-	-	-	1,500	1,500	408
Reduction in minorities' share capital	-	-	-	-	-	-	-	(10,004)	(10,004)	(2,724)
At December 31, 2006	**866,195**	**469,453**	**312,000**	**(11,449)**	**184,220**	**5,557,149**	**7,377,568**	**571,395**	**7,948,963**	**2,164,161**

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

Consolidated Cash Flow Statement
for the year ended December 31

	2006		2005	
	AED'000	US$'000 Equivalent	AED'000	US$'000 Equivalent
Cash flows from operating activities				
Net income for the year	**1,642,742**	**447,248**	2,012,072	547,800
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	**53,949**	**14,687**	34,370	9,357
Fair value adjustment - trading investments	**(63,283)**	**(17,229)**	(58,798)	(16,008)
Translation adjustment for the year	**4,556**	**1,240**	(6,160)	(1,677)
Allowance for impairment of loans and advances	**83,124**	**22,631**	208,442	56,750
Fair value adjustment - property investment	**(64,157)**	**(17,467)**	(39,713)	(10,812)
(Gain)/loss on sale of property and equipment	**(327)**	**(89)**	2,459	669
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	**(217,136)**	**(59,117)**	(272,702)	(74,245)
Increase in bank deposits maturing after three months	**(623,716)**	**(169,811)**	(703,377)	(191,499)
Increase in advances to customers	**(6,385,928)**	**(1,738,614)**	(4,871,703)	(1,326,356)
Increase in Islamic financing and investing products	**(829,014)**	**(225,705)**	-	-
Increase in interest receivable and other assets	**(730,622)**	**(198,916)**	(58,530)	(15,935)
Increase in trading securities - net	**(3,163,929)**	**(861,402)**	(3,872,757)	(1,054,385)
Increase in customers' deposits	**3,903,443**	**1,062,740**	8,897,734	2,422,471
Increase in Islamic customer deposits	**747,890**	**203,618**	-	-
Increase in medium-term floating rate notes	**1,101,900**	**300,000**	1,193,725	325,000
Decrease in long-term loans	**(7,124)**	**(1,939)**	(15,121)	(4,117)
Increase in deposits and balances due to banks	**3,487,919**	**949,610**	409,822	111,577
Increase in insurance and life assurance funds	**113,492**	**30,899**	71,305	19,413
Increase in interest payable and other liabilities	**703,349**	**191,492**	336,426	91,594
Net cash (used in)/provided by operating activities	**(242,872)**	**(66,124)**	3,267,494	889,597
Cash flows from investing activities				
Purchase of property and equipment	**(162,807)**	**(44,325)**	(58,750)	(15,995)
Proceeds from sale of property and equipment	**737**	**201**	2,253	613
Purchase of non-trading investments, net	**(327,556)**	**(89,179)**	(589,596)	(160,521)
Net cash used in investing activities	**(489,626)**	**(133,303)**	(646,093)	(175,903)
Cash flows from financing activities				
Dividend paid to shareholders	**(173,239)**	**(47,166)**	(275,608)	(75,036)
Dividend paid to minority	**(35,441)**	**(9,649)**	(11,814)	(3,216)
Net capital (withdrawn)/introduced by minority	**(8,504)**	**(2,315)**	53,366	14,529
Net cash used in financing activities	**(217,184)**	**(59,130)**	(234,056)	(63,723)
(Decrease)/increase in cash and cash equivalents (Note 30)	**(949,682)**	**(258,557)**	2,387,345	649,971

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

1. General information

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

At December 31, 2006, Mashreqbank psc Group (the "Group") comprises the Bank and its subsidiaries as follows:

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

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

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 annual reporting periods beginning on January 1, 2006. The adoption of these new and revised Standards and Interpretations had no material effect on the amounts reported for the current or prior years in the following areas:

- investments classified as at fair value through profit or loss; and
- financial guarantee contracts.

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

IAS 1	IAS 1 (Amendment) - Capital Disclosure (effective January 1, 2007) IAS 1 (Amendment) requires the disclosure of information that enables users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.
IFRS 7	Financial Instruments Disclosures (effective January 1, 2007) IFRS 7 replaces the disclosures required by IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and parts of the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group will apply IFRS 7 from annual periods beginning January 1, 2007.
IFRS 8	Operating Segments (effective January 1, 2009) IFRS 8 replaces IAS 14 *Segment Reporting*. It extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006).
IFRIC 8	IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006).
IFRIC 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006).
IFRIC 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).
IFRIC 11	IFRS-2: Group Treasury Shares Transactions (effective for periods beginning March 1, 2007).
IFRIC 12	Service Concession Arrangements (effective for periods beginning January 1, 2009).

The Management anticipates 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, except in case of IFRS 7 which when adopted will impact disclosures substantially.

Limitation of ability to designate financial assets and financial liabilities through profit or loss

Following amendments to IAS 39 *Financial Instruments: Recognition and Measurement* in June 2005, the ability of entities to designate any financial asset or financial liability as “at fair value through profit or loss” (FVTPL) has been limited.

Financial assets that can no longer be designated as at Fair Value Through Profit or Loss (FVTPL) are now classified as either loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate, and measured at amortised cost, or at fair value with changes in fair value recognized in equity, according to their classification. Financial liabilities that can no longer be designated as at FVTPL are classified as 'other' financial liabilities and measured at amortised cost.

These changes have been applied by the Group in accordance with the transitional provisions of IAS 39 with effect from the beginning of the comparative reporting period presented in these consolidated financial statements (i.e. with effect from January 1, 2005).

Accounting for financial guarantee contracts

The IASB has also amended IAS 39 *Financial Instruments: Recognition and Measurement* to require certain financial guarantee contracts issued by the Group to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in Note [3(c)] below.

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) 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.

3. Significant accounting policies (continued)

(b) Derivative financial instruments and hedge accounting (continued)

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

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

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

Embedded Derivatives

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

(c) Revenue recognition

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

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

3. Significant accounting policies (continued)

(c) Revenue recognition (continued)

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

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

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

(d) Foreign currency transactions

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

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

(e) Impairment of tangible and intangible assets

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

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

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

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

3. Significant accounting policies (continued)

(f) Investment property

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

(g) Property and equipment

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

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

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

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

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

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

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

(h) Financial assets

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

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

Effective interest method

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

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

3. **Significant accounting policies** (continued)

(h) Financial assets (continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Held-to-maturity investments

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

AFS financial assets

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

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

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

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.

3. Significant accounting policies (continued)

(h) Financial assets (continued)

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.

Loans and advances

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

All loans and advances are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible. The subsequent period-end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

(i) Loans and advances held at amortised cost

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

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

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines [Note 3(h)].

(ii) Held as FVIS

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

(iii) Available for sale

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

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

Impairment of financial assets

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

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

3. Significant accounting policies (continued)

(h) Financial assets (continued)

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

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

Impairment of loans and advances

(i) Individually assessed loans

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

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

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

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

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

(a) Performing loans

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

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

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

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

Impairment of retail loans is calculated by applying formulaic approach 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) Repurchase transactions

Securities sold under agreements to repurchase (“repo”) continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for FVTPL or for non-trading investments. The counter party liability for amounts received under these agreements is included in due to banks.

The difference between sale and repurchase price is treated as interest expense and expensed over the life of each agreement.

3. Significant accounting policies (continued)

(j) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

(k) Employees' end-of-service indemnity

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

(l) Pension and national insurance

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

(m) Taxes on income

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

(n) Offsetting of financial assets and liabilities

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

(o) Cash and cash equivalents

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

(p) De-recognition of financial instruments

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

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

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

(q) Islamic financing and investment products

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

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

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

3. Significant accounting policies (continued)

(q) Islamic financing and investment products (continued)

Murabaha

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

Istissna'a

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

Ijara

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

Musharaka

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

Mudaraba

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

Wakala

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

(ii) Revenue recognition

Revenue is recognized on the above Islamic products as follows:

Murabaha

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

Istissna'a

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

Ijara

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

3. Significant accounting policies (continued)

(q) Islamic financing and investment products (continued)

Musharaka

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

Mudaraba

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

Wakala

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

i) Impairment of loans

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

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:

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

Collectively assessed loans (continued)

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.

(ii) Property and equipment

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

(iii) Fair value of unquoted financial instruments

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

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

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

5. Cash and balances with central banks

	December 31, 2006 AED '000	December 31, 2005 AED '000
Cash on hand	**274,351**	188,174
Balances with central banks:		
Current accounts and other balances	**521,466**	179,026
Statutory cash ratio requirements	**1,179,871**	962,735
Certificates of deposit with the Central Bank of the U.A.E.	**430,000**	2,675,000
	2,405,688	4,004,935

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, 2006 AED '000	December 31, 2005 AED '000
Demand	**792,598**	476,430
Overnight	**453,849**	601,747
Time	**7,310,465**	5,988,318
	8,556,912	7,066,495

The above represent balances due from:

	December 31, 2006 AED '000	December 31, 2005 AED '000
Banks abroad	**8,190,249**	6,591,780
Banks in the U.A.E.	**366,663**	474,715
	8,556,912	7,066,495

7. Loans and advances (net)

	December 31, 2006 AED '000	December 31, 2005 AED '000
(a)		
Overdrafts	**4,481,428**	4,138,257
Loans	**23,780,624**	18,158,121
Credit Cards	**1,090,454**	717,354
Others	**143,581**	83,050
	29,496,087	23,096,782
Less: Allowance for impairment	**(923,854)**	(827,353)
	28,572,233	22,269,429

	December 31, 2006 AED '000	December 31, 2005 AED '000
(b) Analysis by economic activities		
Manufacturing	**3,485,517**	2,226,809
Construction	**1,513,268**	1,863,605
Trade	**5,923,022**	5,753,797
Transport and communication	**1,119,054**	650,465
Services	**2,320,828**	2,070,183
Banks and Financial Institutions	**4,313,330**	3,383,933
Personal	**8,405,769**	6,467,614
Government/Public Sector	**2,116,029**	361,079
Others	**299,270**	319,297
	29,496,087	23,096,782
Less: Allowance for impairment	**(923,854)**	(827,353)
	28,572,233	22,269,429

(c) At December 31, 2006 the fair value of collateral held was AED 10,739 million (2005: AED 6,693 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 379 million at December 31, 2006 (2005: AED 382 million).

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

	December 31, 2006 AED '000	December 31, 2005 AED '000
Balance at the beginning of the year	**827,353**	825,319
Impairment allowance for the year	**123,241**	250,628
Amounts written off during the year	**(10,892)**	(211,363)
Recoveries during the year	**(15,848)**	(37,231)
Balance at the end of the year	**923,854**	827,353

The amount of impairment allowance for the year includes AED 40 million (2005: AED 42 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 555 million (2005: AED 453 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. Islamic financing and investment products

	December 31, 2006 AED '000	December 31, 2005 AED '000
(a)		
Financing		
Murabaha	**20,072**	-
Ijara	**75,595**	-
	95,667	-
Investing		
Musharakah	**128,969**	-
Wakala	**606,391**	-
	735,360	-
Total	**831,027**	-
Less: Unearned income	**(2,013)**	-
	829,014	-

(b) Analysis by economic activities:

	December 31, 2006 AED '000	December 31, 2005 AED '000
Trade	**1,598**	-
Banks and financial institutions	**735,360**	-
Government	**75,595**	-
Personal	**18,474**	-
	831,027	-
Less: Unearned income	**(2,013)**	-
	829,014	-

9. Interest receivable and other assets

	December 31, 2006 AED '000	December 31, 2005 AED '000
Interest receivable	**134,454**	119,185
Prepaid interest and expenses	**49,775**	27,793
Taxes paid in advance	**26,922**	42,132
Clearing suspense	**8,770**	3,309
Positive fair value of derivatives - Note 37	**838,808**	255,807
Insurance related receivables	**370,226**	259,912
Credit Cards interchange receivables	**44,566**	83,757
Inter-group transaction	**43,181**	-
Others	**107,468**	101,653
	1,624,170	893,548

10. Investment in securities

	December 31, 2006 AED '000	2005 AED '000
(i) Financial assets carried at fair value through profit or loss (FVTPL)		
Held-for-trading		
Debt securities	**7,065,331**	3,483,519
Equities	**201,945**	435,107
Discretionary managed fund	**1,852,963**	2,241,815
Other investments	**974,217**	706,803
	10,094,456	6,867,244
(ii) Available-for-sale		
Debt securities	**425,201**	727,804
Equities	**2,313,092**	3,264,079
Others	**82,751**	52,016
	2,821,044	4,043,899
(iii) Held-to-maturity		
Debt securities	**34,235**	193,273
	12,949,735	11,104,416
Less: Provision for impairment	**(14,286)**	(14,286)
Total	**12,935,449**	11,090,130

a) "FVTPL" and "available-for-sale" investments at December 31, 2006 included AED 189.27 million held in the names of "related parties" nominees for the account and for the benefit of the Bank (AED 564.62 million in 2005) - Note 31.

b) The fair value of investments classified under held-to-maturity amounted to AED 34.790 million as of December 31, 2006 (2005: AED 193.684 million).

c) The above investments include debt securities aggregating to AED 1,332.540 million (2005: AED 463.922 million) held-for-trading at fair value of AED 1,134.132 million (2005: AED 345.674 million) and available-for-sale at fair value of AED 198.408 million (2005: AED 118.248 million) sold under a repurchase agreement ("repo") and which are fully substitutable (Note 13).

11. Investment property

	December 31, 2006 AED '000	2005 AED '000
Interest in buildings and freehold land - January 1,	**224,103**	145,493
Additions during the year	**74,147**	87,897
Sold during the year	**-**	(49,000)
Write off during the year	**(668)**	-
Change in fair value during the year	**64,157**	39,713
	361,739	224,103

The fair value of investment property as of December 31, 2006 has been arrived at on the basis of a valuation carried out in November 2006 by the J.A.J. Consultants and December 2006 by The Real Estate and Valuation Centre in Land Department, Government of Dubai.

12. Property and equipment

	Property for own use	Property 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 December 31, 2004	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
Additions	4,209	29	59,984	66,419	32,166	162,807
Disposals/write-offs	(202)	(3)	(4,897)	(12,055)	-	(17,157)
At December 31, 2006	**162,064**	**21,551**	**197,456**	**131,284**	**32,166**	**544,521**
Accumulated depreciation						
At December 31, 2004	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
Charge for the year	6,036	-	24,985	22,928	-	53,949
Disposals/write-offs	(197)	(3)	(4,519)	(12,028)	-	(16,747)
At December 31, 2006	**79,052**	**-**	**118,103**	**45,091**	**-**	**242,246**
Carrying amount						
At December 31, 2006	**83,012**	**21,551**	**79,353**	**86,193**	**32,166**	**302,275**
At December 31, 2005	84,844	21,522	44,732	42,729	-	193,827

At the balance sheet date, the fair value of properties acquired in settlement of debts was AED 285.24 million (2005: AED 128.56 million).

13. Deposits and balances due to banks

	December 31,	
	2006	2005
	AED '000	AED '000
Demand	**1,218,496**	484,226
Overnight	**658,106**	240,025
Time	**5,111,548**	2,775,980
	6,988,150	3,500,231

The above represent borrowings from:

Banks in the U.A.E.	**551,706**	264,855
Banks abroad	**6,434,569**	3,215,438
Overseas central banks	**1,875**	19,938
	6,988,150	3,500,231

13. Deposits and balances due to banks (continued)

Borrowings from banks abroad for 2006 include:

a) counter party liability relating to a 5-year repurchase agreement ("repo") for AED 183.65 million (US$ 50 million) maturing in October 2011. The loan carries a floating rate of interest which is fixed by reference to the three months USD-LIBOR-BBA,

b) counter party liability relating to a 1-year repurchase agreement ("repo") for AED 1,101.96 million (US$ 300.017 million) maturing in December 2007. The loan carries a floating rate of interest which is fixed by reference to the 12 months USD-LIBOR-BBA, and

c) borrowings from banks abroad include an amount of AED 918.25 million (US$ 250 million) [2005: AED 918.25 million (US$ 250 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 6 months LIBOR.

14. Customers' deposits

	December 31,	
	2006	2005
	AED '000	AED '000
Current and other accounts	**6,570,427**	5,129,216
Saving accounts	**437,126**	401,584
Time deposits	**26,900,682**	24,473,992
	33,908,235	30,004,792

15. Insurance and life assurance funds

					December 31,	
	Outstanding claims	**Unearned premium reserve**	**Additional reserve**	**Life assurance fund**	**2006 Total**	2005 Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	AED'000
January 1,	**79,716**	**129,435**	**19,747**	**31,550**	**260,448**	189,143
Increase	**23,440**	**51,165**	**13,000**	**25,887**	**113,492**	71,305
December 31,	**103,156**	**180,600**	**32,747**	**57,437**	**373,940**	260,448

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

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

16. Interest payable and other liabilities

	December 31, 2006 AED '000	December 31, 2005 AED '000
Accrued interest payable	**256,727**	175,392
Income received in advance - discounted bills	**133,829**	136,495
Provision for end-of-service indemnity	**89,766**	79,561
Provision for taxation	**29,899**	39,200
Pay orders issued	**120,451**	111,765
Negative fair value of derivatives - Note 37	**790,409**	226,766
Credit Cards interchange fee income	**27,320**	31,540
Insurance premium collected in advance	**288,322**	211,197
Accrued expenses	**228,179**	212,604
Inter-group transaction	**-**	88,913
Others	**234,334**	182,454
	2,199,236	1,495,887

17. Medium-term floating rate notes

During 2004, the Bank 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. The EMTN programme was increased to US$ 2,000 million (AED 7,346 million) under fiscal agency agreement dated March 21, 2006.

The maturities are as follows:

Due date	Interest rate	December 31, 2006 AED '000	December 31, 2005 AED '000
February 27, 2009	3 months Libor + 0.55%	**1,101,900**	1,101,900
March 23, 2010	3 months Libor + 0.40%	**1,193,725**	1,193,725
April 6, 2011	3 months Libor + 0.38%	**1,101,900**	-
		3,397,525	2,295,625

18. 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.

19. Capital and reserves

(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, 2006, 86,619,520 ordinary shares of AED 10 each (2005: 86,619,520 ordinary shares of AED 10 each) were issued and are fully paid up.

(b) Statutory and legal reserves

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

19. Capital and reserves (continued)

(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.

20. Minority interest

	December 31,	
	2006	2005
	AED '000	**AED '000**
Balance, January 1,	**896,087**	404,803
Dividends	**(35,441)**	(11,814)
Share in cumulative changes in fair values	**(352,849)**	177,010
Share of net income for the year	**72,102**	272,722
Share of minority in newly formed subsidiaries	**1,500**	53,366
Reduction in minority's capital	**(10,004)**	-
	571,395	896,087

21. Contra accounts and commitments

	December 31,	
	2006	2005
	AED '000	AED '000
(a) **Contra accounts (memoranda)**		
Guarantees	**19,600,484**	14,228,204
Letters of credit	**4,821,188**	4,027,133
	24,421,672	18,255,337
(b) **Derivative financial instruments** (Note 37)	**153,833,802**	25,384,441
(c) **Other commitments**		
Uncalled capital on investments held	**-**	1,273
Total contra account and commitments (a + b + c)	**178,255,474**	43,641,051

21. Contra accounts and commitments (continued)

(d) Contra accounts - maturity profile

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

	2006				
	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	**13,482,826**	**2,277,760**	**1,737,622**	**2,102,276**	**19,600,484**
Letters of credit	**3,472,539**	**688,318**	**507,618**	**152,713**	**4,821,188**
Total	**16,955,365**	**2,966,078**	**2,245,240**	**2,254,989**	**24,421,672**

	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
Total	13,052,335	1,317,507	2,286,003	1,599,492	18,255,337

Under IAS 39 (revised) acceptances are recognized on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

22. Interest income

	Year ended December 31,	
	2006	2005
	AED '000	AED '000
Loans and advances	**2,055,460**	1,470,281
Central Banks	**65,202**	61,373
Banks	**473,315**	329,382
Investments	**284,377**	163,300
	2,878,354	2,024,336

23. Income from Islamic financing and investment products

	Year ended December 31, 2006 AED '000	2005 AED '000
Financing		
Murabaha	**1,580**	-
Ijara	**2,205**	-
	3,785	-
Investing		
Musharakah	**415**	-
Wakala	**27,852**	-
	28,267	-
Total	**32,052**	-

24. Interest expense

	Year ended December 31, 2006 AED '000	2005 AED '000
Customers' deposits	**1,174,598**	698,460
Central Banks	**270**	23
Banks	**589,055**	351,269
	1,763,923	1,049,752

25. Other income

	Year ended December 31, 2006 AED '000	2005 AED '000
Net realized investment gain	**413,324**	1,026,401
Fair value adjustments of trading investments	**63,283**	58,798
Fair value adjustments of investment properties	**64,157**	39,713
Dividends income	**55,999**	29,970
Income from investment property	**371**	2,925
Credit Card related fee income	**163,768**	108,522
Fees and charges on banking services	**242,767**	261,992
Foreign exchange gains (net)	**125,051**	90,164
Insurance underwriting profit	**233,640**	143,326
Gain/(loss) on sale of property and equipment	**327**	(2,459)
Rental income from properties	**6,588**	5,080
Others	**39,297**	54,509
	1,408,572	1,818,941

26. General and administrative expenses

	Year ended December 31, 2006 AED '000	2005 AED '000
Salaries and employee related expenses	**605,226**	499,065
Depreciation on property and equipment	**53,949**	34,370
Other general and administration expenses	**372,295**	243,452
	1,031,470	776,887

Compensation of key management (included above under "salaries and employee related expenses") comprise salaries, bonuses and other benefits amounting in total to AED 94.94 million (AED 101.36 million in 2005) - Note 31.

27. Allowances for loans and advances and other financial assets

	2006			
	Retail	**Corporate and others**	**Non-specific [Note 7(f)]**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Provision for impaired loans and advances	**11,013**	**9,334**	**62,777**	**83,124**
Provision for investments and others	**-**	**2,336**	**-**	**2,336**
Provision for other debtors	**-**	**(945)**	**-**	**(945)**
Write-off of impaired loans to income statement	**175,798**	**2,787**	**-**	**178,585**
Recovery of loans previously written off	**(69,963)**	**(46,533)**	**-**	**(116,496)**
Total	**116,848**	**(33,021)**	**62,777**	**146,604**

	2005			
	Retail	Corporate and others	Non-specific [Note 7(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

28. 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, 2006 AED '000	2005 AED '000
Net income for the year (AED'000) (Attributed to equity holders of the parent)	**1,570,640**	1,739,350
Number of ordinary shares outstanding	**86,619,520**	86,619,520
Earnings per share (AED)	**18.13**	20.08

29. Foreign restricted assets

Net assets equivalent to AED 57.852 million as of December 31, 2006 (2005: AED 49.800 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.

30. 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,	
	2006	2005
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	**2,405,688**	4,004,935
Deposits and balances due from banks	**8,556,912**	7,066,495
	10,962,600	11,071,430
Less: Deposits with central banks for regulatory purposes	**(1,179,871)**	(962,735)
Less: Deposits maturing after three months	**(2,575,866)**	(1,952,150)
	7,206,863 (a)	8,156,545 (b)
Increase in cash and cash equivalents - 2006 [(a) - (b)]	**(949,682)**	

	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 three 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	

31. Related party transactions

a) Certain "related parties" (such as, directors and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank and its subsidiaries in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties. Such related party transactions are disclosed below. Other "related party transactions" are disclosed in Notes 10 and 26 to these financial statements.

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

	December 31,	
	2006	2005
	AED '000	AED '000
Advances to customers	**646,675**	409,221
Deposits from customers	**685,763**	541,148
Letters of credit, guarantees and acceptances	**1,562,630**	1,431,794

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

Interest income	**52,250**	32,186
Interest expense	**18,052**	19,412
Other income	**49,524**	43,968

32. Interest rate sensitivity - 2006

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at December 31, 2006 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	430,000	-	-	-	-	1,975,688	2,405,688
Deposits and balances due from banks	5,462,570	642,224	1,489,994	169,526	-	792,598	8,556,912
Loans and advances (net)	19,035,223	3,334,802	2,350,466	3,290,902	383,583	177,257	28,572,233
Islamic financing and investing assets (net)	610,953	202,531	15,530	-	-	-	829,014
Customer acceptances	-	-	-	-	-	1,157,635	1,157,635
Interest receivable and other assets	-	-	-	-	-	1,624,170	1,624,170
Investments in securities	4,246,762	2,245,883	53,937	949,720	-	5,439,147	12,935,449
Investment property	-	-	-	-	-	361,739	361,739
Property and equipment	-	-	-	-	-	302,275	302,275
Total assets	**29,785,508**	**6,425,440**	**3,909,927**	**4,410,148**	**383,583**	**11,830,509**	**56,745,115**
Liabilities and equity							
Deposits and balances due to banks	3,041,325	1,626,367	1,101,963	-	-	1,218,495	6,988,150
Customers' deposits	21,689,534	1,296,347	2,815,254	1,036,210	500,042	6,570,848	33,908,235
Islamic customers' deposits	626,681	121,209	-	-	-	-	747,890
Insurance and life assurance funds	-	-	-	-	-	373,940	373,940
Customer acceptances	-	-	-	-	-	1,157,635	1,157,635
Interest payable and other liabilities	-	-	-	-	-	2,199,236	2,199,236
Medium-term floating rate notes	3,397,525	-	-	-	-	-	3,397,525
Long-term loans	-	-	-	-	-	23,541	23,541
Minority interest	-	-	-	-	-	571,395	571,395
Equity attributable to equity holders of the parent	-	-	-	-	-	7,377,568	7,377,568
Total liabilities and equity	**28,755,065**	**3,043,923**	**3,917,217**	**1,036,210**	**500,042**	**19,492,658**	**56,745,115**
On Balance Sheet gap	1,030,443	3,381,517	(7,290)	3,373,938	(116,459)	(7,662,149)	-
Off Balance Sheet gap	(29,657)	(14,345)	11,276	32,726	-	-	-
Cumulative interest rate sensitivity gap - 2006	**1,000,786**	**4,367,958**	**4,371,944**	**7,778,608**	**7,662,149**	**-**	**-**
Cumulative interest rate sensitivity gap - 2005	3,293,887	4,162,914	5,297,169	7,255,083	7,011,128	-	-

The effective interest rate* on bank placements and certificates of deposits with central bank was 4.82% (2005: 3.3%), on loans and advances 7.94% (2005: 7.04%), on customer deposits 3.71% (2005: 2.59%) and on bank borrowings 5.37% (2005: 3.22%).

**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.*

33. Maturities of assets and liabilities - 2006

	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	2,405,688	-	-	-	-	2,405,688
Deposits and balances due from banks	5,981,046	329,223	1,081,239	1,165,404	-	8,556,912
Loans and advances - net	12,556,634	3,568,545	2,963,652	8,123,520	1,359,882	28,572,233
Islamic financing and investing assets - net	610,953	-	15,530	202,531	-	829,014
Customer acceptances	774,118	231,046	76,393	76,078	-	1,157,635
Interest receivable and other assets	177,623	1,446,547	-	-	-	1,624,170
Investments in securities	3,302,759	252,038	3,256,906	5,206,054	917,692	12,935,449
Investment property	-	-	-	-	361,739	361,739
Property and equipment	-	-	-	-	302,275	302,275
Total assets	**25,808,821**	**5,827,399**	**7,393,720**	**14,773,587**	**2,941,588**	**56,745,115**
Liabilities and equity						
Deposits and balances due to banks	4,076,170	708,117	1,101,963	1,101,900	-	6,988,150
Customers' deposits	28,134,672	1,357,045	2,869,806	1,046,662	500,050	33,908,235
Islamic customers' deposits	626,681	121,209	-	-	-	747,890
Insurance and life assurance funds	-	-	-	-	373,940	373,940
Customer acceptances	774,118	231,046	76,393	76,078	-	1,157,635
Interest payable and other liabilities	1,420,377	160,435	540,564	57,707	20,153	2,199,236
Medium-term floating rate notes	-	-	-	3,397,525	-	3,397,525
Long-term loans	-	-	-	-	23,541	23,541
Minority interest	-	-	-	-	571,395	571,395
Equity attributable to equity holders of the parent	-	-	-	-	7,377,568	7,377,568
Total liabilities and equity	**35,032,018**	**2,577,852**	**4,588,726**	**5,679,872**	**8,866,647**	**56,745,115**

Maturity profile 2005:

Total assets	27,003,375	3,756,951	7,325,657	6,875,577	1,581,071	46,542,631
Total liabilities and shareholders' equity	28,402,508	2,418,881	2,103,240	4,922,070	8,695,932	46,542,631

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.

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

Geographic regions

	December 31, 2006			December 31, 2005		
	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.	**38,970,230**	**49,241,540**	**23,322,276**	28,016,938	38,265,926	17,275,851
Other Middle East countries	**3,974,922**	**2,360,888**	**500,521**	5,633,432	2,699,987	482,066
O.E.C.D.	**8,553,102**	**3,404,040**	**364,198**	8,160,743	4,665,937	316,140
Others	**5,246,861**	**1,738,647**	**234,677**	4,731,518	910,781	181,280
Total	**56,745,115**	**56,745,115**	**24,421,672**	46,542,631	46,542,631	18,255,337

Industry Sector

	December 31, 2006			December 31, 2005		
	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	**3,316,779**	**5,017,823**	**116,544**	1,373,690	2,297,002	129
Commercial & Business	**17,946,817**	**15,874,470**	**18,145,773**	15,275,697	18,128,754	14,150,864
Personal	**8,054,468**	**11,280,441**	**434,754**	6,236,734	8,786,840	38,839
Financial Institutions	**21,667,930**	**18,544,363**	**4,835,349**	22,351,561	7,704,914	3,591,915
Others	**5,759,121**	**6,028,018**	**889,252**	1,304,949	9,625,121	473,590
Total	**56,745,115**	**56,745,115**	**24,421,672**	46,542,631	46,542,631	18,255,337

35. Segmental information

	2006							
	Retail	Corporate	Financial Institutions	Islamic Banking	Treasury & Investment Banking	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	616,037	486,699	80,712	3,546	(142,893)	5,959	67,918	1,117,978
Other income	316,701	337,517	101,326	529	374,936	280,362	298,089	1,709,460
Total operating income	**932,738**	**824,216**	**182,038**	**4,075**	**232,043**	**286,321**	**366,007**	**2,827,438**
General and administrative expenses								**(1,031,470)**
Allowances for loans and advances and other financial assets								**(146,604)**
Income before taxes and minority interest								**1,649,364**
Taxation								**(6,622)**
Net income for the year								**1,642,742**
Attributed to:								
Equity holders of the parent								**1,570,640**
Minority interest								**72,102**
								1,642,742
Segment Assets	7,056,119	19,424,932	6,511,782	918,875	16,744,358	2,712,904	3,376,145	56,745,115
Segment Liabilities	7,580,600	28,567,835	1,868,965	754,158	2,413,658	1,404,824	6,206,112	48,796,152

35. Segmental information (continued)

	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)
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	14,666,338	5,071,919	14,559,067	3,079,495	2,944,338	46,542,631
Segment Liabilities	6,557,000	24,782,936	1,254,838	1,630,646	771,368	3,391,024	38,387,812

36. 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 assets, except for held-to-maturity investments, loans and advances and customer deposits which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated 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 10. 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.

37. 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.

37. Derivatives (continued)

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, 2006				
				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	126,769	76,444	20,565,031	18,968,700	510,278	311,055	774,998	-
Foreign exchange options (bought)	-	510,810	64,966,405	10,083,867	10,415,809	26,847,896	17,618,833	-
Foreign exchange options (sold)	510,758	-	64,966,405	10,083,867	10,415,809	26,847,896	17,618,833	-
Interest rate swaps	199,518	201,392	2,934,215	7,346	86,631	91,964	1,383,534	1,364,740
Caps bought	-	36	146,300	-	-	-	146,300	-
Caps sold	36	-	146,300	-	-	-	146,300	-
Futures contracts purchased (customers)	40	-	25,464	25,464	-	-	-	-
Futures contracts sold (customers)	-	1,687	29,109	26,668	-	2,441	-	-
Futures contracts sold (bank)	-	40	25,464	25,464	-	-	-	-
Futures contracts purchased (bank)	1,687	-	29,109	26,668	-	2,441	-	-
Total	**838,808**	**790,409**	**153,833,802**	**39,248,044**	**21,428,527**	**54,103,693**	**37,688,798**	**1,364,740**
December 31, 2005	255,807	226,766	25,384,441	15,501,958	4,779,993	2,092,227	2,336,853	673,410

38. 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.

38. Risk management (continued)

Credit review procedures and loan classification

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

All commercial/institutional loan facilities of Bank are assigned one of twenty five risk ratings of the performing grades where grades 23, 24 and 25 are for OAEM, in addition classified or criticized parties are graded 60, 70 and 80. 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 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Bank writes off retail advances once they are 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 Corporate & Investment Banking Group, 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 for time deposits and 14.0 percent for demand deposits 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.

38. Risk management (continued)

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, 2006, the Bank's other net foreign exchange exposure was not significant except for AED 79 million short position in Qatari Riyals (2005: AED 204 million) and AED 22 million long position in Pakistani Rupees (2005: AED 18 million) and AED 64 million in long Indian Rupees (2005: AED 14 million), AED 19 million in long Egyptian Pound (2005: AED 22 million in long Egyptian Pound), AED 49 million in long Bahrain Dinar (2005: Nil), AED 24 million in long Japanese Yen (2005: Nil) and AED 34 million in long UK Sterling (2005: Nil).

39. 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, 2006 of AED 415.05 million (2005: AED 445.96 million).

40. Capital adequacy

		December 31, 2006 AED '000	2005 AED '000
Capital base	(a)	**7,825,826**	7,146,899
Risk weighted assets:			
On-balance sheet assets		**33,158,257**	27,545,030
Off-balance sheet assets		**11,519,476**	8,788,359
Total risk-weighted assets	(b)	**44,677,733**	36,333,389
Capital adequacy ratio [(a)/(b) x 100]		**17.52%**	19.67%

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

41. Proposed dividends

	December 31, 2006 AED '000	2005 AED '000
Cash dividend for 2005: AED 2 per share	**-**	173,239
Bonus shares - 3 shares for each 10 shares	**259,859**	-
	259,859	173,239
Dividends per share (AED)	**3.0**	2.0

The proposed cash dividends for 2005 was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting on March 8, 2006.

The bonus shares were proposed by the Board of Directors at their meeting held on February 4, 2007.

42. 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.

43. Comparative figures

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