

## **MESSAGE FROM THE CHAIRMAN TO OUR SHAREHOLDERS**

On behalf of the Board of Directors, it is my proud privilege to present Abu Dhabi Commercial Bank's Annual Report for the first year of the third millennium.

Following the trend of the previous years, I am honoured to announce that Year 2000 was another exceptionally outstanding year for Abu Dhabi Commercial Bank.

We posted record earnings which were our best since the inception of the Bank and the highest in the UAE banking sector for the third consecutive year! Our extraordinary results are highlighted below.

- Net Profit rose to AED 611 Mio as compared to AED 550 Mio in 1999. This 11% increase in profitability, largely helped by strong interest and fee-based revenues was the result of our selective enlargement of the Bank core activities and the concurrent focussed attention given to control of operational costs.

- Total Assets stood at AED 25,302 Mio as compared to AED 23,056 Mio in 1999 – representing a good increase of 10%. We maximised our opportunities by expanding our activities in markets and products where we held a comparative advantage.

- Customers' Deposits registered an increase of 10% to AED 17,112 Mio – amply demonstrating ADCB's strength in widening its reach to new customers to propel higher business levels.

- Loans and Advances to Customers surged to AED 17,272 Mio from AED 14,868 Mio in 1999 – recording an increase of 16% which is a compliment to our strategic initiatives in identifying niche markets.

- ADCB's already strong Total Equity base was further strengthened by 10% to AED 3,769 Mio which has bestowed us with an enormous advantage for future growth.

- ADCB's improved Return on Average Assets of 2.53%, Return on Average Equity of 17.01%, Capital Adequacy Ratio of 18.50% and enhanced Basic Earnings per Share of AED 48.85 was a grand testimony of our consistently superior performance and these indicators could be benchmarked against the best in the financial industry.

The UAE Government's market oriented policies underpinned Abu Dhabi Commercial Bank's significant growth opportunities. In fact, our robust Year 2000 financial performance mirrored the vibrancy of the national economy. Towards this objective, the contribution of the Bank's experienced management team was exceptional. Their strategic responses were further refined and strengthened to reinforce our vital revenue creating and maximising capabilities and effective usage of funds.

Year 2000 was a difficult and intensely competitive year and witnessed challenging developments.

- There was high volatility and continued uncertainty in the oil market throughout the year.
- The advent of the new e-commerce era threw up unprecedented challenges which demanded a repositioning of mindset and meeting of spiralling market and public expectations.
- Increase in restructuring of major international corporates and mergers of banks and technology companies in order to remain competitive and afloat.
- Drastic downward movement in financial markets across the world to historical lows.
- Year 2000 was a landmark year for the Arab world with many countries legislating to join the economic liberalisation bandwagon.
- The financial outlook in the GCC countries was poised to be drastically transformed with the return of confidence and capital to the region which should impact the GCC stock markets.
- Domestically, the GDP shot up 17% to AED 223 Bio for Year 2000 on the back of a 48% surge in oil prices. The year also saw the inauguration of the Dubai and Abu Dhabi Financial Markets.

Abu Dhabi Commercial Bank has professional people at all levels. Our Year 2000 results have shown what they are capable of achieving. The management believes that education and training are the best investment it can make for its personnel. In addition to on-the-job training, several staff members have participated in training programmes, seminars and workshops conducted internally and by the Emirates Banking & Financial Studies Institute and other specialised institutions. This empowerment is essential for handling change and to provide dedicated value service to customers.

In pursuance of the national policy directives, the management is also focussed in its attention to recruit and increase the number of qualified nationals in its bank cadre.

Recognising the fast changing developments in data processing delivery platforms, technology driven networks and other automation systems, the management has in-house programmes for regular updation, product development and specialised training for staff.

In compliance with the Central Bank's guidelines concerning review of the Bank's management structure, a number of international consultants have been invited to study our present structure and submit their proposals for onward referral to our

Board. This assignment is expected to be completed by the end of the current year.

Our focus will continue to be on performance, measured in terms of costs, return on equity and growth in earnings per share. Commitment to performance will remain the driving force but we are determined to demonstrate that ADCB can concurrently meet the highest standards of customer expectations and business practices in all spheres of our dealings and activities.

On behalf of the Board of Directors, management and staff, I wish to extend our profound gratitude to His Highness Sheikh Zayed Bin Sultan Al Nahyan, the President, His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the Crown Prince and Deputy Chief of the Armed Forces and Chief of the Executive Council for their kind blessings, patronage and constructive guidance which we shall always appreciate and be proud of.

I would also like to express our sincere thanks to the His Highness Sheikh Maktoum Bin Rashid Al Maktoum, the Vice President, Prime Minister and Ruler of Dubai and to their Highnesses, Members of the Supreme Council and Rulers of the other Emirates for their consistent support. I also wish to express our sincere thanks and appreciation to the Abu Dhabi Finance Department and the U.A.E. Central Bank for their continued support and guidance which is crucial to our success and a source of great encouragement. We will do everything in our power to ensure that we continue to earn that trust and confidence.

Finally, I wish to extend my sincere thanks to our shareholders and valued clients for their assistance and co-operation and to ADCB's management and staff for their loyalty, effort and dedication.

## **MANAGEMENT REVIEW: 2000**

### **OVERVIEW**

The global economy registered a robust growth rate of 4.9% in year 2000 - one of the highest in recent times. The final quarter, however, witnessed a noticeable slowdown in economic activity in all regions around the globe. While the problems effecting the world economy were varied, the key factor was no doubt the United States and the imbalances that were created during its 10 year prosperity – the longest upswing in economic history. With Japan continuing under deflationary pressures and strongly effected by the loss of momentum in the U.S., the eurozone and Asian economies could not remain immuned to the contagion effect.

As has occurred several times in the past, successive changes in the U.S. interest rates during 2000 caused major price movements in the financial markets, which spread from the U.S. across the entire globe – coincidentally also triggered by the bursting of the technology bubble. The NASDAQ ended the year almost 40% down – its worst performance in its three decades old history. The Dow Jones was down 6%, the S&P lost 25% and the Japanese and European stock markets plummeted as well.

Despite the backdrop of worldwide market volatility and turmoil, the turnaround in oil prices has transformed the financial outlook of the Gulf region. Enhanced oil prices and revenues have given the much needed boost to the confidence of the region's economies especially its private sectors. Gulf governments resolve to proceed with their economic reform programmes - particularly the opening up of the water, power and to some extent hydrocarbon sectors for private investors and elimination of restriction on foreign investments - with the resultant greater inflows of private capital, have placed the economies of the Gulf on a higher growth path.

In the UAE, the drive for economic diversification has changed the economy fundamentally and its strength is that it can take any upside or downside with equal ease. Strong oil revenues have boosted confidence and brought vigour to the UAE economy as the country repositions itself as a regional hub for finance, tourism and technology – in addition to its traditional focus on oil, trade and re-export activities. On the domestic financial markets front, attempts are being made to regain lost grounds and re-energise the inactive primary and secondary stock markets which had a dismal year again and touched near bottom. Government figures estimate a nominal GDP growth at 17% as compared to growth of 10% in 1999 – an impressive advance on all fronts.

### **FINANCIAL RESULTS**

ADCB's financial performance during year 2000 was outstanding. Net interest income rose 5% to AED 756 Mio, fees and commission income was up 8% to AED 149 Mio and net trading income increased 24% to AED 30 Mio – a record for the Bank. Operating expenses decreased by 4% to AED 334 Mio reinforcing our focussed emphasis on efficiency and control of costs without loss of competitiveness. The Bank's net profit rose 11% to a record AED 611 Mio which we take as a humble recognition of the quality of our people, their buoyant team spirit and commitment which gives the Bank its competitive edge to generate a consistently superior financial performance and enhanced shareholders' value.

The Bank's total equity base increased by 10% to AED 3,769 Mio which places us in a strong position particularly for future investments in our data processing delivery platforms and technology based network. Capital Adequacy at 18.50% continues to remain amongst the robust in the financial industry.

## **RISK MANAGEMENT**

During year 2000, ADCB's traditional lending avenues continued to remain stable and showed appreciable growth in some sectors - particularly real estate financing. Share collateralised loans and project finance were kept at optimal levels in line with the relative slowdown in the respective sectors. Trade finance, as usual, provided a reasonably smooth ground for short-term advances. In the corporate sector, the Bank maintained its dominance through active participation in syndicated loans, club deals and managed finance. Besides customised facilities to multi-nationals, major corporates and government/semi-government organisations were among our main focus areas.

In tune with constantly changing business and economic scenario, the Bank's lending strategy continued to be suitably modified via new and updated loan schemes, credit policies and procedures. Caution and conservatism with a blend of active marketing prudence afforded us the ability to harness excellent operating results while avoiding undue risks and potential losses.

## **CORPORATE BANKING, PROJECT FINANCE & LOAN SYNDICATIONS**

In the corporate banking arena, the Bank's philosophy has been to assume the role of a trusted partner to its clients and provide full-circle support. Year 2000 saw induction of several prestigious international corporate relationships into the Bank.

The Bank bid for a number of arranging roles in syndication deals - regionally and internationally. Out of the bids it won, a significant one was the Arranger role for the USD 1,015 Mio syndicated project finance for the Al Taweelah A1 Independent Water Project. Locally, ADCB continued to actively participate in the financing of several projects - particularly in the Emirate of Abu Dhabi. The Abu Dhabi Mall is amongst the prestigious projects financed by the Bank.

## **FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING**

ADCB is all about partnerships : with our shareholders, with our customers and with our correspondents. In many ways, these relationships are our primary assets. Relationships imply continuity. We believe that by developing creative and enduring long-term partnerships, ADCB will continue to grow as a significant banking force in the UAE.

Recognising our customers expectations for guaranteed delivery promises and customised high quality products, ADCB continues to enjoy strong strategic partnerships with the world's leading commercial and investment banks. During year 2000, we worked diligently with our global network of banking partnerships to source and structure products and services and added value all round : to our shareholders, to our customers and to our correspondents.

## **INFORMATION TECHNOLOGY**

During the year, our Branch Automation System – OASIS III was enhanced substantially to achieve better service levels for the customers and the facility was extended to most branch locations. The Wide Area Network infrastructure now offers better response times and more robust security features. The upgrading of the Enterprise network infrastructure together with OASIS III will strategically position the Bank to achieve speedy migration to the new 'Retail Banking Suite' of applications including E-banking planned in the coming months.

In the area of Card Products Automation, a web based enquiry facility has been provided to all intranet users. Facility was now available to make enquiries on cash-link cards, credit cards, and ATM transactions and an enquiry tool to analyse profitability of ATMs based on usage levels. Further integration between Cards Management System and 'Capbanc core system' was achieved by automating reconciliation of transactions for 'onus MasterCard/Visa on ADCB ATMs', fee charging and near online credit facility for payments done at branches. Manual processing of the order of 276,000 transactions per year was eliminated by this integration besides enhancing customer service quality. Through the development of in-house software, the Bank participated in two promotional schemes of the MasterCard International.

Automation of Trade Finance services was taken up during the year and phase 1 of the system implemented at most branches. The system is designed to integrate seamlessly with the core banking system for on-line posting and SWIFT payments for messaging.

The Management Information System was enhanced to provide over the intranet online enquiry facilitating availability of customer statements over three years beginning January 1997.

## **TREASURY, INVESTMENT MANAGEMENT & PRIVATE BANKING SERVICES**

Treasury Division is organised on the basis of inter-related income groups and services, comprising money and capital market operations, private banking, unit funds, offshore banking, merchant banking and specialised corporate lending.

All segments are supported by state-of-the-art systems and modern technology. The year in review witnessed significant growth in treasury related activities both in terms of volume and revenue.

In addition to externally managed investment portfolios, the Bank offers two in-house open ended funds namely (i) ADCB Unit Fund for investments in the international money and capital markets and (ii) ADCB Islamic Fund primarily based on investment in equity and foreign exchange markets.

During year 2000, foreign exchange income achieved new highs. Net trading income at AED 30 Mio represented an increase of 24% over the previous year. Private Banking remained one of the most profitable activities and we continued to retain our leadership position. The Bank's offshore deposit activity also experienced satisfactory growth during the year in terms of volume and profitability.

## **CARD SERVICES**

The Bank continued to have its market share in Credit and Debit card business through MasterCard, Visa, American Express, CASHLINK, Cirrus and Maestro.

Despite heavy competition, the Bank registered considerable growth both in number and volume of card transactions during the year.

The revenue earned in merchant acquiring business during this year increased compared to the previous year as a result of our aggressive marketing efforts.

ADCB successfully negotiated an arrangement with the Ministry of Finance & Industry for sale of E-Dirhams Smart cards at its branch counters commencing the first quarter of year 2001.

## **INDIAN OPERATIONS**

ADCB's Indian operations continued to retain its niche market share and performed satisfactorily despite a noticeable slowdown in the Indian economy. Our branches recorded significant and above industry improvements in business and profitability.

During year 2000, the Indian operations launched its Depository service "Stock Smart" in an effort to add value and quality to its wide range of services for NRI customers. The Bank's internet banking product is planned to be initiated in the near future which should stimulate and lend a technological edge to our Indian business.

Based on our previous participation in the Resurgent India Bonds scheme (RIBs), ADCB was again invited by the State Bank of India to participate in its new India Millennium Deposits scheme (IMDs) launched in October 2000. The Bank's entire network of branches, ably supported by our Indian Operations Liaison Offices in Abu Dhabi and Dubai, was successfully leveraged towards this mobilisation effort. ADCB's strong engagement in the IMDs earned us the top slot amongst participant collecting banks from the UAE.

## **OUTLOOK 2001**

With the world's richest economy slowing faster than most economists had forecast, it is a foregone conclusion that the heightened downtrend in financial markets worldwide will continue well into 2001 – causing widespread decline in market valuations with serious impact on the earning dynamics of financial institutions.

With a stream of plunging profit warnings - particularly from the telecommunication media and technology sectors amidst intensified concerns about the slugging U.S. economy, we believe that the U.S Federal Reserve will continue to cut interest rates, albeit in phases, to limit the meltdown and stimulate economic activity. Year 2001 is also expected to see a weaker oil market due to a decreasing overall world demand – perhaps leading to a notional growth in the oil sector if output cuts by OPEC continue.

While we remain cautiously optimistic for year 2001, interesting and promising opportunities lie ahead in the UAE. Financial closing of ADWEA's new USD 1,500 Mio Independent Water and Power Project at Sweihat slated to generate 1,500 MW of power and 100 mgd of desalinated water is expected by later this year. As the largest plant of its kind in the country, this project is expected to signal technical and commercial records of sorts. The Dolphin project of the UAE Offsets Group and development of the Saadiyat Free Zone are other interesting initiatives that will be keenly monitored.

While bearish sentiments and clouds of uncertainty prevail, there is always a silver lining! We anticipate an imminent but gradual return of confidence and capital to the UAE which would re-energise its stock markets and lead to an improved economic performance. In the short term, the sustained buoyancy in international oil prices may be expected to stimulate new investments in the UAE – opening the window of opportunity presented by our rapidly changing world to banks in general.



## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying balance sheet of Abu Dhabi Commercial Bank PJSC as of 31 December 2000, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2000, the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

We also confirm that in our opinion proper books of account have been kept by the Bank, and the contents of the report of the Board of Directors which relate to these financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit, and to the best of our knowledge and belief no violations of the U.A.E. Commercial Companies Law of 1984 (as amended) or the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Signed by:  
Bassam E Hage  
Partner  
Registration No. 258

Abu Dhabi  
12 February 2001

**Abu Dhabi Commercial Bank PJSC****BALANCE SHEET**

31 December 2000

	<i>Note</i>	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>	<i>2000</i> <i>US \$000's</i>
<b>ASSETS</b>				
Cash and balances with Central Banks	3	1,059,413	812,971	288,433
Deposits with banks		4,809,222	6,174,724	1,309,344
Funds under management		5,641	6,580	1,536
Trading securities	5	388,562	208,544	105,789
Loans and advances to customers	6	17,272,038	14,867,912	4,702,433
Investment securities	7	1,265,119	570,556	344,438
Property and equipment	8	146,175	135,213	39,797
Other assets	9	<u>355,455</u>	<u>279,657</u>	<u>96,775</u>
<b>TOTAL ASSETS</b>		<b><u>25,301,625</u></b>	<b><u>23,056,157</u></b>	<b><u>6,888,545</u></b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks	10	2,817,575	2,550,453	767,105
Customers' deposits		17,112,484	15,604,082	4,658,994
Long term loan	11	1,200,000	1,200,000	326,708
Other liabilities	12	399,408	286,662	108,742
Taxation	13	<u>2,819</u>	<u>3,087</u>	<u>767</u>
<b>TOTAL LIABILITIES</b>		<b><u>21,532,286</u></b>	<b><u>19,644,284</u></b>	<b><u>5,862,316</u></b>
<b>EQUITY</b>				
Share capital	14	1,250,000	1,250,000	340,321
Legal and statutory reserves	15	702,119	579,983	191,157
General and contingency reserves	15	1,525,000	1,325,000	415,192
Proposed dividends	16	250,000	250,000	68,064
Retained earnings		<u>42,220</u>	<u>6,890</u>	<u>11,495</u>
<b>TOTAL EQUITY</b>		<b><u>3,769,339</u></b>	<b><u>3,411,873</u></b>	<b><u>1,026,229</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>25,301,625</u></b>	<b><u>23,056,157</u></b>	<b><u>6,888,545</u></b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	23	<b><u>15,906,513</u></b>	<b><u>14,409,576</u></b>	<b><u>4,330,660</u></b>

---

Fadhel Saeed Al Darmaki  
CHAIRMAN

---

Khalifa Mohammed Hassan  
MANAGING DIRECTOR

The attached notes 1 to 30 form part of these financial statements.

**Abu Dhabi Commercial Bank PJSC****STATEMENT OF INCOME**

Year Ended 31 December 2000

	Note	2000 AED 000's	1999 AED 000's	2000 US \$000's
Interest income	17	1,664,781	1,459,286	453,248
Interest expense	18	<u>908,793</u>	<u>742,780</u>	<u>247,425</u>
Net interest income		755,988	716,506	205,823
Net fee and commission income		149,018	137,962	40,571
Net trading income	19	30,036	24,299	8,178
Dividend income		1,308	874	356
Gain on sale of investment securities		-	1,690	-
Other operating income		<u>7,233</u>	<u>6,720</u>	<u>1,969</u>
OPERATING INCOME		<u>943,583</u>	<u>888,051</u>	<u>256,897</u>
Staff expenses		116,386	105,112	31,687
Depreciation	8	17,828	20,198	4,854
Other operating expenses		42,039	42,936	11,445
Provision for losses on loans and advances, net of recoveries	6	157,115	163,368	42,776
Provision for decline in value of investment securities		<u>341</u>	<u>9,954</u>	<u>93</u>
OPERATING EXPENSES		<u>333,709</u>	<u>341,568</u>	<u>90,855</u>
PROFIT FROM OPERATIONS		609,874	546,483	166,042
Other income		<u>8,418</u>	<u>8,148</u>	<u>2,292</u>
PROFIT BEFORE TAXATION		618,292	554,631	168,334
Income tax expense	13	<u>7,616</u>	<u>3,679</u>	<u>2,073</u>
NET PROFIT FOR THE YEAR		<u>610,676</u>	<u>550,952</u>	<u>166,261</u>
Basic earnings per share (AED)	20	<u>48.85</u>	<u>44.08</u>	<u>13.30</u>

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2000

	Note	2000 AED 000's	1999 AED 000's	2000 US \$000's
<b>OPERATING ACTIVITIES</b>				
Net profit before taxation		618,292	554,631	168,334
Adjustments for:				
Currency translation		(1,550)	(6)	(422)
Depreciation		17,828	20,198	4,854
(Profit) loss on sale of premises and equipment		(63)	14	(17)
Provision for losses on loans and advances, net of recoveries		157,115	163,368	42,776
Gain on sale of investment securities		-	(1,690)	-
Provision for decline in value of investment securities		<u>341</u>	<u>9,954</u>	<u>93</u>
Operating profit before working capital changes		791,963	746,469	215,618
Increase in deposits with banks		(945,992)	(1,619,559)	(257,553)
Decrease in funds under management		939	2,881	255
Increase in loans and advances to customers		(2,561,241)	(582,212)	(697,316)
(Decrease) increase in trading securities		(180,018)	13,591	(49,011)
Increase in other assets		(77,264)	(26,681)	(21,036)
Increase in due to banks		1,439,110	269,041	391,808
Increase in customers' deposits		1,508,402	864,722	410,673
Increase (decrease) in other liabilities		<u>112,746</u>	<u>(3,684)</u>	<u>30,696</u>
Cash from (used in) operations		88,645	(335,432)	24,134
Directors' remuneration paid		(1,225)	-	(333)
Taxation paid		<u>(6,418)</u>	<u>(6,071)</u>	<u>(1,747)</u>
Net cash from (used in) operations		<u>81,002</u>	<u>(341,503)</u>	<u>22,054</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of investment securities		(2,254,500)	(3,517,995)	(613,804)
Proceeds from sale of investment securities		1,559,596	3,589,811	424,611
Purchase of premises and equipment		(29,264)	(26,653)	(7,967)
Proceeds from sale of property and equipment		<u>102</u>	<u>167</u>	<u>28</u>
Net cash (used in) from investing activities		<u>(724,066)</u>	<u>45,330</u>	<u>(197,132)</u>
<b>FINANCING ACTIVITIES</b>				
Dividends paid		<u>(250,000)</u>	<u>(187,500)</u>	<u>(68,064)</u>
Net cash used in financing activities		<u>(250,000)</u>	<u>(187,500)</u>	<u>(68,064)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		(893,064)	(483,673)	(243,142)
Cash and cash equivalents at 1 January		<u>2,810,828</u>	<u>3,294,501</u>	<u>765,267</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	21	<u>1,917,764</u>	<u>2,810,828</u>	<u>522,125</u>

The attached notes 1 to 30 form part of these financial statements.

**Abu Dhabi Commercial Bank PJSC**
**STATEMENT OF CHANGES IN EQUITY**

Year Ended 31 December 2000

	<i>Note</i>	<i>Share capital AED 000's</i>	<i>Statutory reserve AED 000's</i>	<i>Legal reserve AED 000's</i>	<i>General reserve AED 000's</i>	<i>Contingency reserve AED 000's</i>	<i>Proposed dividends AED 000's</i>	<i>Retained earnings AED 000's</i>	<i>Total AED 000's</i>
Balance at 31 December 1998		1,250,000	257,290	212,503	975,000	150,000	187,500	17,408	3,049,701
Net profit for the year - 1999		-	-	-	-	-	-	550,952	550,952
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	(55)	(55)
Transfer to statutory reserve	15	-	55,095	-	-	-	-	(55,095)	-
Transfer to legal reserve	15	-	-	55,095	-	-	-	(55,095)	-
Transfer to general reserve	15	-	-	-	200,000	-	-	(200,000)	-
Dividends paid	16	-	-	-	-	-	(187,500)	-	(187,500)
Proposed dividends	16	-	-	-	-	-	250,000	(250,000)	-
Board of directors remuneration		-	-	-	-	-	-	(1,225)	(1,225)
Balance at 31 December 1999		1,250,000	312,385	267,598	1,175,000	150,000	250,000	6,890	3,411,873
Net profit for the year - 2000		-	-	-	-	-	-	610,676	610,676
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	(1,985)	(1,985)
Transfer to statutory reserve	15	-	61,068	-	-	-	-	(61,068)	-
Transfer to legal reserve	15	-	-	61,068	-	-	-	(61,068)	-
Transfer to general reserve	15	-	-	-	200,000	-	-	(200,000)	-
Dividends paid	16	-	-	-	-	-	(250,000)	-	(250,000)
Proposed dividends	16	-	-	-	-	-	250,000	(250,000)	-
Board of directors remuneration		-	-	-	-	-	-	(1,225)	(1,225)
Balance at 31 December 2000		<u>1,250,000</u>	<u>373,453</u>	<u>328,666</u>	<u>1,375,000</u>	<u>150,000</u>	<u>250,000</u>	<u>42,220</u>	<u>3,769,339</u>

The movements in foreign exchange translation adjustments represent the net foreign exchange translation loss arising from translating the financial statements of the Bank's foreign branches into U.A.E. Dirhams.

The attached notes 1 to 30 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2000

**1 ACTIVITIES**

The financial statements of Abu Dhabi Commercial Bank PJSC ("the Bank") were authorised for issue in accordance with a resolution of the Board of Directors on 12 February 2001.

The Bank is a public joint stock shareholding company with limited liability incorporated in Abu Dhabi. The Bank changed its name from Khalij Commercial Bank to Abu Dhabi Commercial Bank after merging with Emirates Commercial Bank and Federal Commercial Bank on 1 July 1985. The Bank carries on retail, commercial, investment and merchant banking through its network of thirty-four branches in the United Arab Emirates and two branches in India and employed 1301 employees as of 31 December 2000 (1999: 1259 employees).

The registered head office of the Bank is at P O Box 939, Abu Dhabi, United Arab Emirates (U.A.E.).

The Bank is registered as a public joint stock company in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended).

The reporting currency of the Bank is U.A.E. Dirhams (AED). The US Dollar (US \$) amounts are presented for the convenience of the reader.

**2 SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Preparation***

The financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Committee (IASC), interpretations issued by the Standing Interpretations Committee of the IASC and applicable requirements of U.A.E. Law.

The significant accounting policies adopted are as follows:

***Accounting convention***

The financial statements are prepared under the historical cost convention as modified for the revaluation of derivatives to market value. The accounting policies have been consistently applied and are consistent with those adopted in previous year.

***Securities***

Trading securities are stated at the lower of cost, adjusted for any amortised premiums or discounts, and market value determined on an aggregate portfolio basis. Premiums and discounts are amortised on a systematic basis to maturity and are taken to interest income.

Investment securities comprise unquoted investments and quoted investments in which the Bank has a long-term interest. Investment securities are stated at cost, adjusted for any amortised premiums or discounts. Premiums and discounts are amortised on a systematic basis to maturity and are taken to interest income. The carrying amount of investment securities is reduced to recognise a decline other than temporary in the value of investments, such reduction being determined and made for each investment individually.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

***Loans and advances***

Loans and advances are stated at cost less any amounts written off and specific or general provisions.

Provisions for credit losses comprise both specific and general provisions. Specific provisions are created to reduce all impaired loans and advances to their expected realisable value. Potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances are recognised as an expense and are deducted from the total carrying amount of loans and advances as a general provision for losses on loans and advances.

The extent of the total provision for loan losses is determined on the basis of management's evaluation of the anticipated impact of the prevailing domestic, regional, economic and legal conditions and estimated future losses in the portfolio. Bad debts are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

***Property and equipment***

Property and equipment, including land, acquired as at 1 July 1985, are reported at the directors' determination of net realisable value at the date of acquisition. Property and equipment purchased subsequent to 1 July 1985 are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed the recoverable amount, assets are written down.

***Depreciation***

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

***Collateral pending sale***

The Bank occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral is stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the statement of income.

***Taxation***

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Bank operates.

***Provisions***

Provisions are recognised when the Bank has an obligation arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

***Fiduciary assets***

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

***Revenue recognition***

Interest receivable and payable and loan commitment fees are recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Loan interest accruing on loans considered doubtful is excluded from income until received. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

***Foreign currencies***

Assets and liabilities in foreign currencies including those relating to foreign branches are translated into U.A.E. Dirhams at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to income.

The operations of overseas branches are not deemed an integral part of the head office's operations as they are financially and operationally independent of the head office. The assets and liabilities of foreign branches are translated into U.A.E. Dirhams at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the year. Any exchange differences arising on the translation are taken directly to retained earnings. On disposal of a foreign branch, such exchange differences are recognised in the income statement as part of the profit or loss on sale.

***Cash and cash equivalents***

Cash and cash equivalents comprise those balances of the following maturing within three months of the date of acquisition: cash and balances with Central Banks, deposits with banks and balances due to banks.

***Off balance sheet derivative instruments***

The Bank enters into off balance sheet derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Derivative instruments held for trading purposes are revalued to prevailing market rates at the balance sheet date and the resultant gains and losses are taken to income. Derivative instruments with positive market values are included in other assets and derivative instruments with negative market values are included in other liabilities. The gains and losses generated from transactions used for hedging purposes are deferred and amortised over the lives of the hedged assets and liabilities.

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Cash on hand	209,354	188,332
Balances with Central Banks	<u>850,059</u>	<u>624,639</u>
	<u>1,059,413</u>	<u>812,971</u>



NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**4 FOREIGN CURRENCY BALANCES**

Net assets amounting to the Indian Rupee equivalent of AED 34.3 million (1999: AED 29.6 million) held in India are subject to the exchange control regulations of India.

**5 TRADING SECURITIES**

The classification of trading securities was as follows:

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Quoted debt securities	385,414	184,083
Others	<u>3,148</u>	<u>24,461</u>
	<u>388,562</u>	<u>208,544</u>

At 31 December 2000, the market value of trading securities was AED 390 million (1999: AED 217 million).

**6 LOANS AND ADVANCES TO CUSTOMERS**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Overdrafts	6,340,845	6,181,452
Personal instalment loans	2,465,579	2,517,467
Term loans	9,228,955	6,794,456
Credit cards	95,723	80,034
Other facilities	<u>428,458</u>	<u>436,056</u>
	18,559,560	16,009,465
Less: provision for loan losses	<u>(1,287,522)</u>	<u>(1,141,553)</u>
	<u>17,272,038</u>	<u>14,867,912</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**6 LOANS AND ADVANCES TO CUSTOMERS** continued

Loans and advances are stated net of provision for loan losses. The movements in loan loss provisions during the year were as follows:

	2000			1999		
	General AED 000's	Specific AED 000's	Total AED 000's	General AED 000's	Specific AED 000's	Total AED 000's
At 1 January	216,172	925,381	1,141,553	193,859	844,456	1,038,315
Currency translation adjustment	(371)	(731)	(1,102)	(278)	(196)	(474)
Transfers	(50,962)	50,962	-	-	-	-
Net amounts written off	-	(10,044)	(10,044)	(2,038)	(57,618)	(59,656)
Recoveries	-	(9,300)	(9,300)	-	(14,677)	(14,677)
Charge for the year	<u>26,500</u>	<u>139,915</u>	<u>166,415</u>	<u>24,629</u>	<u>153,416</u>	<u>178,045</u>
At 31 December	<u>191,339</u>	<u>1,096,183</u>	<u>1,287,522</u>	<u>216,172</u>	<u>925,381</u>	<u>1,141,553</u>

The composition of the loans and advances portfolio net of provision for loan losses is as follows:

	2000			1999		
	Domestic AED 000's	International AED 000's	Total AED 000's	Domestic AED 000's	International AED 000's	Total AED 000's
<b>Economic sector</b>						
Agriculture	632,228	-	632,228	558,922	34	558,956
Energy	602,505	-	602,505	667,868	-	667,868
Trading	1,251,662	29,274	1,280,936	1,324,537	29,896	1,354,433
Construction	1,698,729	41,076	1,739,805	1,439,210	137,132	1,576,342
Transport	384,519	82,884	467,403	417,541	14,300	431,841
Personal	8,505,646	35,203	8,540,849	6,909,296	19,509	6,928,805
Government	2,543,575	215,851	2,759,426	2,335,332	250,237	2,585,569
Others	<u>1,088,843</u>	<u>160,043</u>	<u>1,248,886</u>	<u>595,984</u>	<u>168,114</u>	<u>764,098</u>
Total	<u>16,707,707</u>	<u>564,331</u>	<u>17,272,038</u>	<u>14,248,690</u>	<u>619,222</u>	<u>14,867,912</u>

At 31 December 2000, loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 3,293 million (1999: AED 2,886 million). As at 31 December 2000, interest in suspense amounted to AED 3,410 million (1999: AED 3,296 million).

The specific provision for loan losses is arrived at after taking account of the indemnity provided by the Government of Abu Dhabi amounting to AED 1.2 billion.

**7 INVESTMENT SECURITIES**

	2000 AED 000's	1999 AED 000's
Quoted investments	1,193,520	544,427
Unquoted investments	<u>71,599</u>	<u>26,129</u>
	<u>1,265,119</u>	<u>570,556</u>

At 31 December 2000, the market value of the quoted investments was AED 1,232.2 million (1999: AED 542.6 million). In the opinion of senior management, the fair value of unquoted investments approximates their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**8 PROPERTY AND EQUIPMENT**

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold premises	15 years
Leasehold premises	7 years or period of lease, if less
Furniture, equipment and vehicles	3 to 5 years

	<i>Freehold property AED 000's</i>	<i>Leasehold property AED 000's</i>	<i>Furniture, equipment and vehicles AED 000's</i>	<i>Total AED 000's</i>
Cost or valuation:				
At 1 January 2000	183,303	9,591	81,340	274,234
Currency translation adjustment	(372)	(2)	(297)	(671)
Additions during the year	21,658	245	7,361	29,264
Cost of disposals	<u>-</u>	<u>(159)</u>	<u>(920)</u>	<u>(1,079)</u>
At 31 December 2000	<u>204,589</u>	<u>9,675</u>	<u>87,484</u>	<u>301,748</u>
Depreciation:				
At 1 January 2000	68,128	6,754	64,139	139,021
Currency translation adjustment	(23)	(1)	(212)	(236)
Provided during the year	8,269	956	8,603	17,828
Disposals	<u>-</u>	<u>(139)</u>	<u>(901)</u>	<u>(1,040)</u>
At 31 December 2000	<u>76,374</u>	<u>7,570</u>	<u>71,629</u>	<u>155,573</u>
Net book value:				
At 31 December 2000	<u>128,215</u>	<u>2,105</u>	<u>15,855</u>	<u>146,175</u>
At 31 December 1999	<u>115,175</u>	<u>2,837</u>	<u>17,201</u>	<u>135,213</u>

Freehold property includes properties recorded at directors' valuation with a gross carrying value of AED 37 million (1999 : AED 37 million).

**9 OTHER ASSETS**

	<i>2000 AED 000's</i>	<i>1999 AED 000's</i>
Interest receivable	193,518	148,582
Advance taxation	9,105	11,418
Prepayments	8,111	10,254
Clearing receivables	92,218	81,437
Others	<u>52,503</u>	<u>27,966</u>
	<u>355,455</u>	<u>279,657</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**10 DUE TO BANKS**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Current and demand deposits	42,525	72,171
Deposits maturing within one year	1,889,360	2,478,282
Deposits maturing after one year	<u>885,690</u>	<u>-</u>
	<u>2,817,575</u>	<u>2,550,453</u>

**11 LONG TERM LOAN**

A long term interest bearing loan of AED 1,200 million (1999 : AED 1,200 million) has been provided by the Government of Abu Dhabi under an agreement with the Bank. Interest is payable annually to the Government of Abu Dhabi at a rate to be advised by the U.A.E. Central Bank and such interest for the year amounted to AED 66 million (1999 : AED 57 million) which has been charged as an expense for the year (note 18).

**12 OTHER LIABILITIES**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Interest payable	164,776	94,613
Staff terminal benefits	47,135	41,134
Accounts payable and sundry creditors	89,584	68,905
Income received in advance	9,619	10,138
Others	<u>88,294</u>	<u>71,872</u>
	<u>399,408</u>	<u>286,662</u>

**13 TAXATION**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
<i>Current liability:</i>		
Prior year	-	116
Current year	<u>2,819</u>	<u>2,971</u>
	<u>2,819</u>	<u>3,087</u>
<i>Income statement:</i>		
Current year	<u>7,616</u>	<u>3,679</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**14 SHARE CAPITAL**

	<i>Authorised AED 000's</i>	<i>2000 Issued and fully paid AED 000's</i>	<i>1999 AED 000's</i>
Ordinary shares of AED 100 each	<u>1,500,000</u>	<u>1,250,000</u>	<u>1,250,000</u>

Abu Dhabi Investment Authority holds 64.796%, AED 809,953,700 (1999 : 64.796% - AED 809,953,700) of the issued and fully paid up share capital. The balance is held by U.A.E. institutions and U.A.E. nationals.

**15 RESERVES**

*Statutory Reserve*

As required by Article 82 of Union Law No 10 of 1980, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The statutory reserve is not available for distribution.

*Legal Reserve*

In accordance with the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended) and Article 60 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year has been transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the nominal value of the paid up share capital. The legal reserve is not available for distribution.

*General reserve*

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

*Contingency reserve*

The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

**16 PROPOSED DIVIDENDS**

For the year ended 31 December 2000, the Board of Directors has proposed paying a cash dividend of 20% amounting to AED 250 million (1999 : 20% AED 250 million) out of the profits for the year subject to the approval of the shareholders at the Annual General Meeting. Following the adoption of International Accounting Standard 10 (revised) "Events After the Balance Sheet Date" which became operative for financial statements covering periods beginning on or after 1 January 2000, the prior year figure for proposed dividends has been reclassified from liabilities to equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**17 INTEREST INCOME**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Loans and advances	1,282,735	1,123,569
Deposits with banks	306,332	254,411
Investment securities	50,515	59,846
Trading securities	<u>25,199</u>	<u>21,460</u>
	<u><u>1,664,781</u></u>	<u><u>1,459,286</u></u>

**18 INTEREST EXPENSE**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Bank deposits	125,756	83,834
Customers' deposits	717,037	601,946
Long term loan (note 11)	<u>66,000</u>	<u>57,000</u>
	<u><u>908,793</u></u>	<u><u>742,780</u></u>

**19 NET TRADING INCOME**

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
Foreign exchange	26,903	21,672
Trading securities	<u>3,133</u>	<u>2,627</u>
	<u><u>30,036</u></u>	<u><u>24,299</u></u>

**20 BASIC EARNINGS PER SHARE**

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	<i>2000</i>	<i>1999</i>
Net profit for the year (AED 000's)	<u><u>610,676</u></u>	<u><u>550,952</u></u>
Ordinary shares in issue throughout the year (000's)	<u><u>12,500</u></u>	<u><u>12,500</u></u>
Earnings per share (AED)	<u><u>48.85</u></u>	<u><u>44.08</u></u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**21 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>
Cash and balances with Central Banks	1,059,413	812,971
Deposits with banks	1,821,276	4,132,770
Due to banks	<u>(962,925)</u>	<u>(2,134,913)</u>
	<u>1,917,764</u>	<u>2,810,828</u>

**22 RELATED PARTY TRANSACTIONS**

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The year end balances in respect of related parties included in the financial statements are as follows:

	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>
Loans and advances to customers	1,814,537	1,672,614
Customers' deposits	3,058,237	2,859,716
Irrevocable commitments and contingencies	35,215	33,435

The income and expenses in respect of related parties included in the financial statements are as follows:

	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>
Interest and commission income	103,457	62,330
Interest expense	55,957	88,521

**23 COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank has the following commitments at 31 December:

	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>
Commitments on behalf of customers:		
Acceptances	225,816	364,647
Letters of credit	1,170,289	1,239,682
Guarantees	10,968,688	9,946,270
Irrevocable commitments to extend credit maturing within one year	1,478,174	1,300,975
Commitments for future capital expenditure	6,994	11,483
Derivative instruments:		
Forward foreign exchange commitments	1,148,694	1,236,150
Interest rate swaps	872,965	273,639
Options	<u>34,893</u>	<u>36,730</u>
	<u>15,906,513</u>	<u>14,409,576</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**23 COMMITMENTS AND CONTINGENT LIABILITIES** continued

*Credit-related commitments*

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

*Derivative instruments*

In the ordinary course of business the Bank enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into, include forwards, options and swaps.

*Derivatives held or issued for trading purposes*

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage activities. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates and indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products.

*Derivatives held or issued for hedging purposes*

The Bank uses derivative instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange commitments to hedge exchange rate risk and interest rate swaps and forward rate agreements to hedge interest rate risk.

*Derivative related credit risk*

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial instruments of good credit rating.

The table below shows the notional amounts of derivative financial instruments analysed by the term to maturity. The notional amount, which is off balance sheet, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

23 COMMITMENTS AND CONTINGENT LIABILITIES continued

	<i>Notional amounts by term to maturity</i>			
	<i>Total</i>	<i>Within 3</i>	<i>3-12</i>	<i>1-5 years</i>
	<i>AED 000's</i>	<i>months</i>	<i>months</i>	<i>AED 000's</i>
		<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>
<i>At 31 December 2000</i>				
Derivatives held for trading:				
Options	34,893	-	25,711	9,182
Derivatives held for hedging:				
Interest rate swaps	872,965	-	36,730	836,235
Forward foreign exchange contracts	<u>1,148,694</u>	<u>816,773</u>	<u>331,921</u>	<u>-</u>
	<u>2,056,552</u>	<u>816,773</u>	<u>394,362</u>	<u>845,417</u>
<i>At 31 December 1999</i>				
Derivatives held for trading:				
Options	36,730	11,019	25,711	-
Derivatives held for hedging:				
Interest rate swaps	273,639	-	9,183	264,456
Forward foreign exchange contracts	<u>1,236,150</u>	<u>798,154</u>	<u>437,996</u>	<u>-</u>
	<u>1,546,519</u>	<u>809,173</u>	<u>472,890</u>	<u>264,456</u>

The Bank has the following significant net exposures denominated in foreign currencies at 31 December:

	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>
	<i>equivalent</i>	<i>equivalent</i>
	<i>long (short)</i>	<i>long (short)</i>
US Dollar	(330,608)	(320,304)
Indian Rupees	19,624	55,020
Omani Riyal	36,125	9,910
Pound Sterling	(1,890)	4,056
Euro	3,309	(584)
Bahrani Dinar	2,507	27

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**24 SEGMENTAL INFORMATION***Primary segment information*

For operating purposes, the Bank is organised into two major business segments: Commercial Banking, which principally provides loans and other credit facilities, deposit and current accounts for the Bank's customers, and Investment Banking, which involves the management of the Bank's investment portfolio and its treasury activities. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year was as follows:

	<i>Commercial banking</i>		<i>Investment banking</i>		<i>Total</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>
Total operating income	<u>889,374</u>	<u>834,020</u>	<u>54,209</u>	<u>54,031</u>	<u>943,583</u>	<u>888,051</u>
Segment result and profit from operations	564,144	510,146	45,730	36,337	609,874	546,483
Other income	8,418	8,148	-	-	8,418	8,148
Income tax expense - unallocated					<u>(7,616)</u>	<u>(3,679)</u>
Net profit for the year					<u>610,676</u>	<u>550,952</u>
<i>Other Information</i>						
Segment assets	<u>17,496,308</u>	<u>15,252,539</u>	<u>7,805,317</u>	<u>7,803,618</u>	<u>25,301,635</u>	<u>23,056,157</u>
<b>Total assets</b>					<u>25,301,635</u>	<u>23,056,157</u>
Segment liabilities	<u>13,726,969</u>	<u>11,840,666</u>	<u>7,805,317</u>	<u>7,803,618</u>	21,532,286	19,644,284
Equity					<u>3,769,339</u>	<u>3,411,873</u>
<b>Total liabilities and equity</b>					<u>25,301,635</u>	<u>23,056,157</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**24 SEGMENTAL INFORMATION** continued

*Secondary segment information*

Although the Bank is organised primarily on business segments, the Bank operates in two geographic markets. The United Arab Emirates which is designated as Domestic and represent the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India and its offshore banking unit. The following table shows the distribution of the Bank's operating income, total assets, total liabilities and capital expenditure by geographical segment.

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>
Total operating income	<u>919,305</u>	<u>864,002</u>	<u>24,278</u>	<u>24,049</u>	<u>943,583</u>	<u>888,051</u>
Profit before taxation	603,507	545,720	14,785	8,911	618,292	554,631
Income tax expense	<u>-</u>	<u>-</u>	<u>7,616</u>	<u>3,679</u>	<u>7,616</u>	<u>3,679</u>
Net profit for the year	<u>603,507</u>	<u>545,720</u>	<u>7,169</u>	<u>5,232</u>	<u>610,676</u>	<u>550,952</u>
Segment assets	<u>23,994,004</u>	<u>22,503,727</u>	<u>1,307,621</u>	<u>552,430</u>	<u>25,301,625</u>	<u>23,056,157</u>
Segment liabilities	<u>20,160,601</u>	<u>13,179,762</u>	<u>1,371,685</u>	<u>6,464,522</u>	<u>21,532,286</u>	<u>19,644,284</u>
Capital expenditure incurred in the year	<u>28,908</u>	<u>21,603</u>	<u>356</u>	<u>5,050</u>	<u>29,264</u>	<u>26,653</u>

**25 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

For details of the composition of the loans and advances portfolio refer note 6. Information on credit risk relating to derivative instruments is provided in note 23.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**26 CONCENTRATIONS OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS**

The distribution by geographic region and industry sector was as follows:

	<b>2000</b>			<b>1999</b>		
	<i>Assets</i> <i>AED 000's</i>	<i>Liabilities</i> <i>and equity</i> <i>AED 000's</i>	<i>Off-balance</i> <i>sheet items</i> <i>AED 000's</i>	<i>Assets</i> <i>AED 000's</i>	<i>Liabilities</i> <i>and equity</i> <i>AED 000's</i>	<i>Off-balance</i> <i>sheet items</i> <i>AED 000's</i>
<b><i>Geographic region</i></b>						
Domestic (UAE)	18,423,997	23,358,277	5,484,140	16,170,238	21,575,354	4,985,088
Other GCC countries	2,165,884	331,471	1,290,424	3,323,215	663,366	1,250,338
Other Arab countries	224	97,724	71,644	131,178	124,566	16,655
South Africa	499,931	1,764	115,812	54,012	377	129,935
India	1,435,929	1,381,565	1,021,451	653,200	536,713	1,506,048
Europe	884,701	58,017	6,611,329	278,874	29,921	6,039,679
USA	51,932	5,017	202,426	65,942	16,185	232,492
Japan	1,635	306	29,563	29	10,461	12,919
Hong Kong	74,595	-	281	106,853	-	8,046
Singapore	352,163	34,313	9,182	329,790	73,565	-
South Korea	1,093,064	331	810,288	1,734,561	314	3,182
Rest of the world	<u>317,570</u>	<u>32,840</u>	<u>259,973</u>	<u>208,265</u>	<u>25,335</u>	<u>225,194</u>
Total	<u>25,301,625</u>	<u>25,301,625</u>	<u>15,906,513</u>	<u>23,056,157</u>	<u>23,056,157</u>	<u>14,409,576</u>
<b><i>Industry sector</i></b>						
Commercial & business	5,231,279	2,650,013	3,930,695	4,641,384	1,711,488	3,474,589
Personal	8,617,489	8,849,794	525,265	6,968,777	7,216,276	412,386
Public sector	757,119	650,212	77,289	804,127	2,143,589	119,286
Government	4,275,215	9,822,633	965,443	3,789,632	8,734,246	1,110,282
Banks and financial institutions	<u>6,420,523</u>	<u>3,328,973</u>	<u>10,407,821</u>	<u>6,852,237</u>	<u>3,250,558</u>	<u>9,293,033</u>
Total	<u>25,301,625</u>	<u>25,301,625</u>	<u>15,906,513</u>	<u>23,056,157</u>	<u>23,056,157</u>	<u>14,409,576</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**27 INTEREST RATE RISK**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The substantial majority of the Bank's assets and liabilities reprice within one year. Accordingly, there is limited exposure to interest rate risk.

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2000 was as follows:

	<i>Effective Rate</i>	<i>Less than 3 months AED 000's</i>	<i>3 months to less than 6 months AED 000's</i>	<i>6 months to less than 1 year AED 000's</i>	<i>1 Year to less than 3 years AED 000's</i>	<i>Over 3 years AED 000's</i>	<i>Non-interest bearing items AED 000's</i>	<i>Total AED 000's</i>
<b>ASSETS</b>								
Cash and balances with Central Banks	-	-	-	-	-	-	1,059,413	1,059,413
Deposits with banks	7.25	4,377,957	340,855	44,986	-	-	45,424	4,809,222
Funds under management	7.08	5,641	-	-	-	-	-	5,641
Trading securities	11.12	-	-	168,265	51,019	163,947	5,331	388,562
Loans and advances to customers	9.27	11,514,462	786,511	622,600	1,403,417	939,413	2,005,635	17,272,038
Investment securities	10.03	310,526	177,325	36,714	-	613,860	126,694	1,265,119
Property and equipment	-	-	-	-	-	-	146,175	146,175
Other assets	-	-	-	-	-	-	355,455	355,455
Total assets		<u>16,208,586</u>	<u>1,304,691</u>	<u>872,565</u>	<u>1,454,436</u>	<u>1,717,220</u>	<u>3,744,127</u>	<u>25,301,625</u>
<b>LIABILITIES AND EQUITY</b>								
Due to banks	7.64	1,560,214	330,570	-	-	885,690	41,101	2,817,575
Customers' deposits	6.13	12,486,857	1,005,924	589,013	150,685	-	2,880,005	17,112,484
Long term loan	5.50	-	-	-	-	1,200,000	-	1,200,000
Other liabilities	-	-	-	-	-	-	399,408	399,408
Taxation	-	-	-	-	-	-	2,819	2,819
Equity	-	-	-	-	-	-	3,769,339	3,769,339
Total liabilities and equity	-	<u>14,047,071</u>	<u>1,336,494</u>	<u>589,013</u>	<u>150,685</u>	<u>2,085,690</u>	<u>7,092,672</u>	<u>25,301,625</u>
On-balance sheet gap	-	2,161,515	(31,803)	283,552	1,303,751	(368,470)	(3,348,545)	-
Off-balance sheet gap	-	<u>55,095</u>	<u>817,870</u>	<u>(36,730)</u>	<u>(285,285)</u>	<u>(550,950)</u>	-	-
Total interest rate sensitivity gap	-	<u>2,216,610</u>	<u>786,067</u>	<u>246,822</u>	<u>1,018,466</u>	<u>(919,420)</u>	<u>(3,348,545)</u>	-
Cumulative interest rate sensitivity gap	-	<u>2,216,610</u>	<u>3,002,677</u>	<u>3,249,499</u>	<u>4,267,965</u>	<u>3,348,545</u>	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

27 INTEREST RATE RISK continued

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 1999 was as follows:

	Effective rate	Less than 3 months AED 000's	3 months to less than 6 months AED 000's	6 months to less than 1 year AED 000's	1 Year to less than 3 years AED 000's	Over 3 years AED 000's	Non-interest bearing items AED 000's	Total AED 000's
<b>ASSETS</b>								
Cash and balances with Central Banks	-	-	-	-	-	-	812,971	812,971
Deposits with banks	7.00	5,803,930	321,839	-	-	-	48,955	6,174,724
Funds under management	6.14	6,580	-	-	-	-	-	6,580
Trading securities	11.37	3,846	-	52,790	93,389	31,907	26,612	208,544
Loans and advances to customers	8.98	9,947,657	939,282	470,288	1,298,617	467,697	1,744,371	14,867,912
Investment securities	6.99	352,300	54,390	9,182	18,365	18,365	117,954	570,556
Property and equipment	-	-	-	-	-	-	135,213	135,213
Other assets	-	-	-	-	-	-	279,657	279,657
Total assets		<u>16,114,313</u>	<u>1,315,511</u>	<u>532,260</u>	<u>1,410,371</u>	<u>517,969</u>	<u>3,165,733</u>	<u>23,056,157</u>
<b>LIABILITIES AND EQUITY</b>								
Due to banks	6.31	2,424,415	-	53,866	-	-	72,172	2,550,453
Customers' deposits	5.77	12,096,234	534,847	462,431	139,627	3,491	2,367,452	15,604,082
Long term loan	4.75	-	-	-	-	1,200,000	-	1,200,000
Other liabilities	-	-	-	-	-	-	286,662	286,662
Taxation	-	-	-	-	-	-	3,087	3,087
Equity	-	-	-	-	-	-	3,411,873	3,411,873
Total liabilities and equity	-	<u>14,520,649</u>	<u>534,847</u>	<u>516,297</u>	<u>139,627</u>	<u>1,203,491</u>	<u>6,141,246</u>	<u>23,056,157</u>
On balance sheet gap	-	1,593,664	780,664	15,963	1,270,744	(685,522)	(2,975,513)	-
Off-balance sheet gap	-	<u>45,913</u>	<u>227,726</u>	<u>(9,182)</u>	<u>(18,365)</u>	<u>(246,092)</u>	-	-
Total interest rate sensitivity gap	-	<u>1,639,577</u>	<u>1,008,390</u>	<u>6,781</u>	<u>1,252,379</u>	<u>(931,614)</u>	<u>(2,975,513)</u>	-
Cumulative interest rate sensitivity gap		<u>1,639,577</u>	<u>2,647,967</u>	<u>2,654,748</u>	<u>3,907,127</u>	<u>2,975,513</u>	-	-

The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments, such as interest rate swaps which are used to manage the interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**28 LIQUIDITY RISK**

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end is based on contractual repayment arrangements.

The maturity profile of the assets and liabilities at 31 December 2000 was as follows:

		<i>3 months to less than 3 months</i>	<i>6 months to less than 6 months</i>	<i>1 year to less than 1 year</i>	<i>3 years to less than 3 years</i>	<i>5 years to less than 5 years</i>	<i>Over 5 years</i>
	<i>Total</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>
<b>ASSETS</b>							
Cash and balances							
with Central Banks	1,059,413	1,059,413	-	-	-	-	-
Deposits with banks	4,809,222	4,423,381	340,855	44,986	-	-	-
Funds under management	5,641	5,641	-	-	-	-	-
Trading securities	388,562	388,562	-	-	-	-	-
Loans and advances							
to customers	17,272,038	11,151,080	1,897,549	633,855	1,444,773	894,621	1,250,160
Investment securities	1,265,119	177,948	156,058	117,419	174,741	638,953	-
Property and equipment	146,175	-	-	-	-	-	146,175
Other assets	<u>355,455</u>	<u>317,000</u>	<u>18,185</u>	<u>19,468</u>	<u>454</u>	<u>348</u>	<u>-</u>
Total assets	<u>25,301,625</u>	<u>17,523,025</u>	<u>2,412,647</u>	<u>815,728</u>	<u>1,619,968</u>	<u>1,533,922</u>	<u>1,396,335</u>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	2,817,575	1,601,315	330,570	-	-	885,690	-
Customers' deposits	17,112,484	15,366,862	1,005,924	589,013	150,685	-	-
Long term loan	1,200,000	-	-	-	-	-	1,200,000
Other liabilities	399,408	275,147	23,572	18,495	11,295	10,666	60,233
Taxation	2,819	2,819	-	-	-	-	-
Equity	<u>3,769,339</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,519,339</u>
Total liabilities and equity	<u>25,301,625</u>	<u>17,496,143</u>	<u>1,360,066</u>	<u>607,508</u>	<u>161,980</u>	<u>896,356</u>	<u>4,779,572</u>

Trading investments are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the balance sheet dates to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**28 LIQUIDITY RISK** continued

The maturity profile of the assets and liabilities at 31 December 1999 was as follows:

		<i>3 months to less than 3 months</i>	<i>6 months to less than 6 months</i>	<i>1 year to less than 1 year</i>	<i>3 years to less than 3 years</i>	<i>5 years to less than 5 years</i>	<i>Over 5 years</i>
	<i>Total AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>	<i>AED 000's</i>
<b>ASSETS</b>							
Cash and balances							
with Central Banks	812,971	812,971	-	-	-	-	-
Deposits with banks	6,174,724	5,852,885	321,839	-	-	-	-
Funds under management	6,580	6,580	-	-	-	-	-
Trading securities	208,544	208,544	-	-	-	-	-
Loans and advances							
to customers	14,867,912	7,641,719	1,527,437	1,072,276	2,234,250	925,424	1,466,806
Investment securities	570,556	327,747	78,845	52,119	88,578	18,365	4,902
Property and equipment	135,213	-	-	-	-	-	135,213
Other assets	<u>279,657</u>	<u>250,724</u>	<u>10,582</u>	<u>17,787</u>	<u>110</u>	<u>454</u>	-
Total assets	<u>23,056,157</u>	<u>15,101,170</u>	<u>1,938,703</u>	<u>1,142,182</u>	<u>2,322,938</u>	<u>944,243</u>	<u>1,606,921</u>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	2,550,453	2,496,587	-	53,866	-	-	-
Customers' deposits	15,604,082	14,463,686	534,847	462,431	139,627	3,466	25
Long term loan	1,200,000	-	-	-	-	-	1,200,000
Other liabilities	286,662	205,390	14,099	10,283	8,848	438	47,604
Taxation	3,087	3,087	-	-	-	-	-
Equity	<u>3,411,873</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,161,873</u>
Total liabilities and equity	<u>23,056,157</u>	<u>17,418,750</u>	<u>548,946</u>	<u>526,580</u>	<u>148,475</u>	<u>3,904</u>	<u>4,409,502</u>

Trading investments are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the balance sheet date to the contractual maturity date.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

**29 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The 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. Consequently differences can arise between carrying values and the fair value estimates.

While the Bank prepares its financial statements under the historical cost convention modified by the revaluation of derivatives to market value, in the opinion of management, the carrying values of the financial assets and liabilities are not significantly different from their fair values in view of the following:

- (i) Assets and liabilities are either short term in nature or, in the case of bank deposits and customer deposits, frequently repriced. A significant proportion of loans and advances is also frequently repriced.
- (ii) For non-performing loans and advances, the carrying values are not materially different from their fair values in view of the collateral held by the Bank, agreed settlement arrangements and the history of the Bank's recoveries of such loans.
- (iii) As regards trading and investment securities, the fair value approximates their carrying value (see notes 5 and 7). The fair value is based on quoted market prices for quoted securities or, in the case of unquoted securities, was estimated based on the net present value of future cash flows from the investment using the Bank's required rates of return from investments with a similar risk profile.

**30 CAPITAL ADEQUACY**

The capital adequacy ratio calculated in accordance with the guidelines of the United Arab Emirates Central Bank is as follows:

	<i>2000</i> <i>AED 000's</i>	<i>1999</i> <i>AED 000's</i>
Total capital base	<u>3,519,339</u>	<u>3,161,873</u>
Risk weighted assets:		
Balance sheet items	14,911,587	13,341,323
Off-balance sheet exposures	<u>4,112,179</u>	<u>3,009,233</u>
Total risk weighted assets	<u>19,023,766</u>	<u>16,350,556</u>
Total assets ratio (%)	<u>18.50</u>	<u>19.34</u>