

# Board Of Directors

***Fadhel Saeed Al Darmaki***

Chairman of Board and Executive Committee

***Rashid Humaid Al Mazroui***

Board Member

***Mubarak Mattar Al Humairi***

Board Member and Executive Committee Member

***Mohammed Abdul Aziz Al Rubaiyea***

Board Member

***Abdulla Khalil Al Mutawa***

Board Member and Executive Committee Member

***Abdulla Mohammed Hassan Ameeri***

Board Member

***Saeed Mubarak Rashid Al Hajeri***

Board Member and Executive Committee Member

***Khalifa Mohammed Hassan***

Managing Director and Chief Executive Officer  
And Executive Committee Member

# Message from the Chairman

On behalf of the Board of Directors, I am pleased to present the Bank's 17<sup>th</sup> Annual Report for the year ending 31 December 2001 which shows a net profit of AED 615 Mio after full implementation and compliance with International Accounting Standards (IAS) -39. Accordingly, I take pleasure to announce that the Board of Directors have recommended the distribution of a 25% dividend to our shareholders.

The local and global challenges arising after 11 September 2001 are reflected in the sluggish market conditions, world wide recession, volatile oil prices, etc., which have negatively affected various business and economic sectors. However, owing to vigorous efforts made by our Management in marketing various products and controlling over-heads, the Bank has resisted negative pressures of the crisis and made significant progress towards achieving its objectives.

Following the trend of the previous years, I am honoured to announce that the year 2001 was another good year for the Bank. We posted record earnings which showed consistent improvement since inception of the Bank and ranked highest in the UAE banking sector for the fourth successive year!

## **Our results for the year 2001 are highlighted below:**

- Though our profit for 2000 was the largest among local banks, the results of 2001 exceeded that level and were the highest in the Bank's history. Net profits at AED 615 Mio represented 49% of the Bank's share capital as compared to AED 611 Mio in 2000. No doubt this is a great achievement if we take into consideration the global economic recession which started in the second half of 2001, continuing negative impact of events after 11 September, the decline in UAE's economic growth from 5.2% in 2000 to about 3.5% in 2001, etc.
- Total Assets stood at AED 26,593 Mio as compared to AED 25,302 Mio in 2000 – representing an increase of 5%.
- Customers' Deposits registered an increase of 4% to AED 17,726 Mio – amply demonstrating ADCB's capacity to widen its customer base.
- Loans and Advances to Customers were AED 16,356 Mio which declined from AED 17,272 Mio in 2000. By excluding advances to the Government sector, there was a net growth of 6% in advances to other sectors.
- ADCB's already strong Total Equity base was further strengthened by 9% to AED 4,114 Mio despite downward revision under IAS-39.
- Return on the Average Assets at 2.37%, on the Average Equity at 16.81%, Capital Adequacy Ratio of 18.43% and enhanced Basic Earnings per Share at AED 49.23 testify our consistently superior performance.

Our robust performance in 2001 is largely attributed to the Bank's experienced and professional management team. Their strategic responses were further refined and strengthened to reinforce our vital revenue creating and maximising capabilities and effective usage of funds.

The Bank's Management strongly 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 and Financial Studies Institute and other specialised institutions.

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

In pursuance of the national policy directives, the Management has also focussed its attention to recruit and increase the number of qualified Nationals in its cadre.

In compliance with the Central Bank's guidelines concerning review of the Bank's Management structure, the Consultants were appointed during the year and they have submitted their report. Their recommendations are being studied by the Management and Members of the Board for selective implementation. The new structure should facilitate our enlarging the business and repositioning our future strategies.

Our focus will continue to be on high performance, measured in terms of costs, return on equity and growth in earnings per share. At the same time, 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.

No doubt the crisis hit the world last year with severe effects on the world economy and caused instability in the financial sector. This has resulted in decline in the economic growth in many countries in the world and bankruptcy of a large number of companies. In order to face this crisis, many countries have taken necessary measures such as reducing interest rates and taxes as an incentive to improve the economic situation. However, all efforts made so far in this direction have not yet yielded desired results. Unless the situation improves, the year 2002 may be still a difficult year for all world economies and particularly the banking sector. We should accept this fact and not to ignore the political and economic environment and their reflection on the local economy. However, we should take necessary measures to tackle the situation and try to achieve the best results we could.

Nonetheless, the UAE economy continues to grow though at a slower pace with significant changes in size and sophistication. Your Bank will continue to search for new business opportunities in the emerging sectors and turn them into profit centres for our future growth.

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, and to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the Crown Prince and Deputy Chief of the Armed Forces and to 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 other Emirates for their consistent support. I also wish to express our sincere thanks and appreciation to H.H. Sh. Ahmed Bin Zayed Al Nahyan, the Managing Director of Abu Dhabi Investment Authority, 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.

Fadhel Saeed Al Darmaki  
Chairman

# Management Review: 2001

## Overview

2001 was a dismal year for the global economy. The already gloomy and prolonged world economic slowdown was exacerbated by the events of September 11. Business and consumer confidence was undermined to such an extent that the effectiveness of global monetary and fiscal policy stimulus and the impact of lower energy prices were at best limited and shallow. Whereas no country could safely claim to have bucked the trend and emerged unscathed by the ravages of recession in America, Japan and the Eurozone, the greatest impact was expected to be felt by East Asia, Latin America and countries with strong trading ties with the U.S.

In the UAE, the main challenge to the economy came from lower oil revenues. Oil prices remained volatile throughout the year and dropped 16% from an average of USD 27.6 per barrel in 2000 to USD 23 per barrel in 2001. While the government took a very proactive stance in offsetting the worst of the downturn by increased spending on infrastructure, latest data indicates a lower growth rate in the region of 3.5% in the real GDP as against 5.2% achieved in 2000. The government's attempts to diversify the economy were at last reflecting tangible and sustainable rewards with the aggregate non-oil sector expanding at a much faster rate and thus partly compensating for the setback in the oil sector.

## Financial Results

Despite a particularly difficult and intensely challenging market environment, 2001 was a year of achievement for ADCB. The Bank made significant progress towards its strategic objectives: strong franchise, high asset quality, robust productivity and sustained income growth.

ADCB's 2001 performance mirrors better utilisation of its inherent strengths and vindicates our long-term strategy to be a diversified bank which can fine tune its income streams. The Bank made a cohesive effort to maximise its advantages in domestic and international markets and posted a record net profit of AED 615 Mio despite a drop in its lending activities. This compares favourably with the 2000 net of AED 611 Mio. 2001 results were particularly outstanding considering the backdrop in which these were achieved. We saw most of our business areas recording strong performance despite a low and falling interest rate environment and the instability that followed the events of September 11. The improvement in earnings reinforces ADCB's ability to manage and indeed benefit from volatility in financial markets.

In 2001, as market turmoil deepened, risk management was at the core of ADCB's strategy. Drivers of revenue generation were further strengthened with renewed emphasis on a conservative approach to asset quality and funds management. Total assets increased 5.1% to AED 26,593 Mio and loan volume contracted 5.3% to AED 16,356 Mio, while deposits were up by 3.6% to AED 17,726 Mio and total equity improved by 9.2% to AED 4,114 Mio.

## **Risk Management**

2001 was characterised by a relative slowdown in business and economy. There was need for extra caution and prudence in our lending activity. Not many new projects or other lending avenues were available. Besides, declining oil prices and an unprecedented series of interest rate cuts during the year had an adverse impact on our lending opportunities as well as net interest margins.

Nevertheless, our existing client-base and sectoral allocation witnessed continued stability and reasonable growth. Trade finance, personal loans, agricultural advances and certain government department/oil companies enjoyed a prominent status among our lending sectors. Real estate finance, share collateralised loans and project finance were undertaken on a selective basis, without assuming undue risk. Special lending schemes were mainly confined to personal lending sector where we have continued to excel. As the conditions were not considered conducive for introduction of major new products and services initiatives, the Bank relied on its traditional and proven financing vehicles during the year.

At the same time greater emphasis was laid on consolidation, restructuring and follow up of advances, so as to avoid any serious impairment. As the Bank commenced compliance with the IAS-39 and of Risk Management principles, review and remedial action have acquired greater significance. More attention and efforts were being invested into maintaining and improving the quality of our lending portfolio and credit risk management.

## **Corporate Banking, Project Finance & Loan Syndications**

Corporate banking saw through satisfactory completion of several of its medium term financing transactions with fresh commitments being simultaneously entered into. Our facilities were largely utilised towards participation in the infrastructure development of the country, mostly in the area of power distribution/transmission networks and electrical sub-stations. A notable business was the mandate won for a 4-year USD 10 million working capital facility for Emirates CMS Power Co. This facility will be used to support the commercial operations of the Taweelah A2 plant which is already on stream.

The Bank's project finance function continued to support local and regional projects. It took up a sizeable participation in issuance of the Performance Guarantee for construction of ADWEA's Shuweihat Power and Desalination facility. Drawdowns for the Taweelah A1 project also commenced during the year. Funding of the cement plant expansion project of the Sharjah Cement Co. started in full swing during the year. The first phase of the Abu Dhabi Mall was successfully completed giving the city its first comprehensive shopping facility. The Mall has become one of the most attractive landmarks in the city. The second phase commenced during the year. The Bank is equally committed to the second phase which will create one of the city's most attractive office and furnished accommodation cum hotel complex. The Bank is also involved in several other industrial projects in the UAE and the Gulf.

The syndications activity continued in full swing with the Bank successfully concluding several corporate loans, trade finance and risk participation deals with reputed international counter-parties which contributed handsomely to the bottom-line. For the first time, the Bank participated in the creation of a Bankers' Acceptance securitisation facility on behalf of a country in the neighbourhood.

### **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 lasting values and continuity. We believe that by developing creative and enduring long-term partnerships, ADCB will continue to be a significant banking force in the UAE.

Recognising the dynamics of its customer expectations for guaranteed delivery of customised quality products, ADCB continues to enjoy strong and well structured strategic alliances with the world's leading commercial and investment banks. In 2001, we worked diligently with our global network of banking partnerships to source and structure products and services and to add value all round: to our shareholders, to our customers and to our correspondents.

### **Information Technology**

During the year, the Branch Automation System was enhanced to automate functions such as Cheque Book Inventory, Batch Posting, CIF Enquiry and Forex Rate Module for Treasury, which greatly increased the efficiency of branch operations. As of December 2001 the system stood extended to 31 branches. Strategically, the system was now positioned to co-exist with the new Core-Banking System that was being planned for the future.

In the area of Card Products automation, substantial system enhancements were carried out to strengthen access security and comply with new regulatory requirements from MasterCard International and VISA. The electronic switching facility has been upgraded to incorporate standby disaster recovery capability, which substantially increased system resilience and availability.

Trade Finance System (Phase 1) covering LG and Export Letter of Credit, authorisation and security module and data capture module was implemented at 20 branches. A comprehensive Real Estate Management System was implemented in key branches, resulting in increased efficiency of the business management teams.

The Bank announced its new remote Telephone Banking Service during the year, thereby enabling customers to access their account information through a toll-free number. This product will offer associated services like payment of utility bills besides regular enquiry on the banking products through the use of home telephones.

The Management Information System was customised to support standards pertaining to Central Bank in addition to its regular business support functions.

The SWIFT Payment System was replaced during the year to support the new message formats introduced by SWIFT worldwide. Our current ATM network was expanded and upgraded by installation and replacement of ATMS.

During the year, a comprehensive 3 year I.T. strategy plan was implemented with a view to modernize the I.T. infrastructure. This strategic initiative entails substantial investments to introduce new generation services and to position the Bank with a better competitive advantage in the emerging markets of tomorrow.

### **Treasury, Investment Management & Private Banking Services**

Treasury, Investment Management and Private Banking Services Division being further equipped by state-of-the-art technologies and highly qualified professionals continued to maintain the quality and profitability for 2001.

Bank, besides promoting funds managed by top ranking international fund managers, offer two in-house open-ended funds to its clients, namely: (i) ADCB Unit Fund, investing in international bonds and money markets and (ii) Islamic Fund, investing in Islamic equities, commodities and FX. During the year under review, despite the fact that the financial markets were highly unpredictable, our Treasury Division made another record FX and Money market profit, superseding the 2000 result.

Private Banking has shown strong performance by achieving 66.6% increase over the net profit of previous year.

### **Card Services**

The Bank maintained its market share in Credit and Debit card business on MasterCard, VISA, American Express, CASHLINK, Cirrus and Maestro. The number and volume in credit/debit transactions have increased compared to the previous year. The events of September 11 made a global impact on card business due to recession in Travel and Entertainment Industry. Despite the above, we have noticed an overall increase in our volume and number of transactions which would have otherwise shown much more favorable results. The income generated on card business has also shown an increase over the previous year. The Bank has plans to introduce new products during the year 2002 to cater to the needs of various segments of customers.

## **Indian Operations**

ADCB's Indian operations continue to perform satisfactorily and performance parameters registered above average growth. The Indian operation also successfully launched its internet banking product "ADCBNetlink" which brings real time banking to our customers in any part of the world. The Indian operations of ADCB were ranked no.12 out of 80 Banks operating in India by the Financial Express.

The Banks Indian Operations Liaison Offices in Abu Dhabi and Dubai continue to form the corner stone of our services to the NRI community and the contribution of these offices over the past two decades has resulted in our retaining our niche market share of the NRI business.

## **Outlook 2002**

With the world economy heading for its first recession in 20 years and most economists forecasting a dilatory and tepid economy recovery in the second half of 2002 as the best case scenario, we remain cautiously optimistic.

Interesting new developments and opportunities are, however, shaping up in the UAE. The new Independent Water and Power Project ('IWPP') at Fujairah launched by the UAE Offsets Group holds excellent promise. ADWEA is already progressing on the Umm Al Nar IWPP on similar lines as the Taweelah and Shuweihat projects. In Dubai Jebel Ali 'L' is poised to take off shortly. Additionally, the Dolphin project is witnessing strong renewed interest. All these large scale commitments hold the promise to spin off several exciting investments bringing new channels of prosperity to the UAE and the region.

The vision that distinguished ADCB in 2001 will continue to determine our path in the year ahead. With the Bank's strategic responses being continuously refined and strengthened to reinforce its vital revenue creating and maximising capabilities, we are well positioned to benefit from any window of opportunity and anticipate substantial progress in 2002. Our growth will increase shareholder value and further strengthen ADCB's position in the UAE banking sector.

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

### **ABU DHABI COMMERCIAL BANK PJSC**

We have audited the accompanying balance sheet of Abu Dhabi Commercial Bank PJSC as of 31 December 2001, 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 2001, 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  
19 February 2002

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

31 December 2001

	<i>Note</i>	<i>2001</i> <i>AED 000</i>	<i>2000</i> <i>AED 000</i>	<i>2001</i> <i>US \$000</i>
<b>ASSETS</b>				
Cash and balances with Central Banks	3	1,130,661	1,059,413	307,830
Deposits with banks		5,481,477	4,809,222	1,492,371
Funds under management		5,674	5,641	1,545
Trading investments	5	13,522	388,562	3,682
Loans and advances to customers	6	16,355,516	17,272,038	4,452,904
Non trading investments	7	3,154,202	1,265,119	858,754
Other assets	8	306,277	355,455	83,386
Property and equipment	9	<u>145,562</u>	<u>146,175</u>	<u>39,630</u>
<b>TOTAL ASSETS</b>		<b><u>26,592,891</u></b>	<b><u>25,301,625</u></b>	<b><u>7,240,102</u></b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks	10	3,132,589	2,817,575	852,869
Customers' deposits		17,725,691	17,112,484	4,825,944
Long term loan	11	1,200,000	1,200,000	326,708
Other liabilities	12	418,313	399,408	113,890
Taxation	13	<u>2,339</u>	<u>2,819</u>	<u>637</u>
<b>TOTAL LIABILITIES</b>		<b><u>22,478,932</u></b>	<b><u>21,532,286</u></b>	<b><u>6,120,048</u></b>
<b>EQUITY</b>				
Share capital	14	1,250,000	1,250,000	340,321
Legal and statutory reserves	15	825,205	702,119	224,668
General and contingency reserves	15	1,700,000	1,525,000	462,837
Proposed dividends	16	312,500	250,000	85,080
Retained earnings		5,630	42,220	1,533
Cumulative changes in fair values	17	<u>20,624</u>	<u>-</u>	<u>5,615</u>
<b>TOTAL EQUITY</b>		<b><u>4,113,959</u></b>	<b><u>3,769,339</u></b>	<b><u>1,120,054</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>26,592,891</u></b>	<b><u>25,301,625</u></b>	<b><u>7,240,102</u></b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	25	<b><u>14,224,087</u></b>	<b><u>15,906,513</u></b>	<b><u>3,872,607</u></b>

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Fadhel Saeed Al Darmaki  
CHAIRMAN

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Khalifa Mohammed Hassan  
MANAGING DIRECTOR

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF INCOME

Year Ended 31 December 2001

	Note	2001 AED 000	2000 AED 000	2001 US \$000
Interest income	18	1,608,723	1,664,781	437,987
Interest expense	19	<u>836,520</u>	<u>908,793</u>	<u>227,749</u>
Net interest income		772,203	755,988	210,238
Net fee and commission income		153,282	149,018	41,732
Net trading income	20	30,561	30,036	8,320
Dividend income		1,742	1,308	474
Gain on sale of non trading investments		4,218	-	1,148
Other operating income		<u>8,283</u>	<u>7,233</u>	<u>2,255</u>
OPERATING INCOME		<u>970,289</u>	<u>943,583</u>	<u>264,167</u>
Staff expenses		130,468	116,386	35,521
Depreciation	9	17,695	17,828	4,818
Other operating expenses		44,757	42,039	12,185
Provision for impaired loans and advances net of recoveries	6	161,169	157,115	43,879
Provision for impairment of non-trading investments	21	<u>602</u>	<u>341</u>	<u>164</u>
OPERATING EXPENSES		<u>354,691</u>	<u>333,709</u>	<u>96,567</u>
PROFIT FROM OPERATIONS		615,598	609,874	167,600
Other income		<u>9,252</u>	<u>8,418</u>	<u>2,519</u>
PROFIT BEFORE TAXATION		624,850	618,292	170,119
Income tax expense	13	<u>9,421</u>	<u>7,616</u>	<u>2,565</u>
NET PROFIT FOR THE YEAR		<u>615,429</u>	<u>610,676</u>	<u>167,554</u>
Basic earnings per share (AED)	22	<u>49.23</u>	<u>48.85</u>	<u>13.40</u>

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2001

	Note	2001 AED 000	2000 AED 000	2001 US \$000's
<b>OPERATING ACTIVITIES</b>				
Net profit before taxation		624,850	618,292	170,119
Adjustments for:				
Currency translation		(1,126)	(1,550)	(307)
Depreciation		17,695	17,828	4,818
Profit on sale of premises and equipment		(27)	(63)	(7)
Provision for impaired loans and advances net of recoveries		161,169	157,115	43,879
Gain on sale of non trading investments		(4,218)	-	(1,148)
Provision for impairment of non-trading investments		<u>602</u>	<u>341</u>	<u>164</u>
Operating profit before working capital changes		798,945	791,963	217,519
Decrease (increase) in deposits with banks		318,797	(945,992)	86,795
(Increase) decrease in funds under management		(33)	939	(9)
Decrease (increase) in loans and advances to customers		702,482	(2,561,241)	191,255
Increase in trading securities		-	(180,018)	-
Decrease (increase) in other assets		80,247	(77,264)	21,848
(Decrease) increase in due to banks		(170,819)	1,439,110	(46,507)
Increase in customers' deposits		613,207	1,508,402	166,950
Increase in other liabilities		<u>18,855</u>	<u>112,746</u>	<u>5,133</u>
Cash from operations		2,361,681	88,645	642,984
Directors' remuneration paid		(1,225)	(1,225)	(333)
Taxation paid		<u>(40,970)</u>	<u>(6,418)</u>	<u>(11,154)</u>
Net cash from operations		<u>2,319,486</u>	<u>81,002</u>	<u>631,497</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of non-trading investments		(1,910,776)	(2,254,500)	(520,222)
Proceeds from sale of non trading investments		435,001	1,559,596	118,431
Purchase of property and equipment		(17,327)	(29,264)	(4,717)
Proceeds from sale of property and equipment		<u>83</u>	<u>102</u>	<u>23</u>
Net cash used in investing activities		<u>(1,493,019)</u>	<u>(724,066)</u>	<u>(406,485)</u>
<b>FINANCING ACTIVITIES</b>				
Dividends paid		<u>(250,000)</u>	<u>(250,000)</u>	<u>(68,065)</u>
Net cash used in financing activities		<u>(250,000)</u>	<u>(250,000)</u>	<u>(68,065)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	576,467	(893,064)	156,947	
Cash and cash equivalents at 1 January		<u>1,917,764</u>	<u>2,810,828</u>	<u>522,125</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	23	<u>2,494,231</u>	<u>1,917,764</u>	<u>679,072</u>

The attached notes 1 to 32 form part of these financial statements.

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

Year Ended 31 December 2001

	Note	Share capital AED 000	Statutory reserve AED 000	Legal reserve AED 000	General reserve AED 000	Contingency reserve AED 000	Proposed dividends AED 000	Retained earnings AED 000	Cumulative changes in fair value AED 000	Total AED 000
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		1,250,000	373,453	328,666	1,375,000	150,000	250,000	42,220	-	3,769,339
Adjustment arising from the application of IAS 39		-	-	-	-	-	-	(38,080)	-	(38,080)
Net profit for the year - 2001		-	-	-	-	-	-	615,429	-	615,429
Realised gain on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	(763)	-	(763)
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	(1,315)	-	(1,315)
Transfer to statutory reserve	15	-	61,543	-	-	-	-	(61,543)	-	-
Transfer to legal reserve	15	-	-	61,543	-	-	-	(61,543)	-	-
Transfer to general reserve	15	-	-	-	175,000	-	-	(175,000)	-	-
Dividends paid	16	-	-	-	-	-	(250,000)	-	-	(250,000)
Proposed dividends	16	-	-	-	-	-	312,500	(312,500)	-	-
Net movement in cumulative changes in fair values	17	-	-	-	-	-	-	-	20,624	20,624
Board of directors remuneration		-	-	-	-	-	-	(1,275)	-	(1,275)
Balance at 31 December 2001		<u>1,250,000</u>	<u>434,996</u>	<u>390,209</u>	<u>1,550,000</u>	<u>150,000</u>	<u>312,500</u>	<u>5,630</u>	<u>20,624</u>	<u>4,113,959</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 32 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2001

**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 19 February 2002.

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-six branches in the United Arab Emirates and two branches in India and employed 1360 employees as of 31 December 2001 (2000: 1301 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 financial statements of the Bank are prepared in United Arab Emirate 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 Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASC and applicable requirements of the Laws in the U.A.E.

The significant accounting policies adopted are as follows:

**Accounting convention**

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of trading and available for sale investment securities and derivatives. In addition, as more fully discussed below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged. The accounting policies have been consistently applied by the Bank and except for the changes in accounting policies as discussed below, are consistent with those adopted in the previous year.

**Change in accounting policies**

The Bank has adopted International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” for the year ended 31 December 2001. This has resulted in significant changes in the accounting policies of the Bank in respect of recognition and measurement of financial instruments. In accordance with the transitional provisions of this standard, the Bank has accounted for the changes in policies with effect from 1 January 2001 and has not restated comparatives. The major changes are as follows:

**Investments**

Previously, the Bank valued all non-trading investments at amortised cost, less provision for impairment and trading investments at the lower of cost, adjusted for any amortised premiums or discounts, and market value determined on an aggregate portfolio basis. The Bank has reclassified such investments as either “held to maturity”, “available for sale” or “originated by the Bank”. Those classified as trading or as available for sale at 1 January 2001 have been remeasured at fair value with the resultant gain or loss being taken to retained earnings on 1 January 2001. For available for sale investments, the subsequent unrealised gains and losses are reported as a separate component of equity. On sale or when the investment is determined to be impaired, cumulative gains or losses are recycled through the statement of income. For trading investments, subsequent changes in fair value and realised gains and losses are taken to the statement of income in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

*Derivatives*

As at the beginning of the financial year, the Bank has recognised for the first time the fair value of all derivatives in its balance sheet as either assets or liabilities at their fair values. Gains or losses (net of adjustments to related assets or liabilities) on fair value hedges at 31 December 2000 have been taken to retained earnings at 1 January 2001, while gains or losses on cash flow hedges affecting future transactions have been taken to cumulative changes in fair values, a separate component of equity.

*Provision for impairment of financial assets*

The calculation of impairment provisions for loans and advances and other financial assets is now based on the net present value of anticipated cash flows discounted at original interest rates. Previously future recoveries were not discounted. The difference arising from recalculating impairment based on the net present value of future cash flows as at 1 January 2001 has been taken to retained earnings at 1 January 2001. Subsequent impairment provisions are taken to the statement of income. On impaired loans, interest is now recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring impairment

*Effect of the changes in accounting policies*

The adoption of the standard has resulted in a debit adjustment to retained earnings at 1 January 2001 of AED 38,080 thousand and a credit adjustment for the year to cumulative changes in fair values of AED 20,624 thousand.

**Deposits with banks**

Deposits with banks are stated at cost less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are taken to the statement of income.

**Trading Investments**

These are carried at fair value with any gain or loss arising from a change in fair value and realised gains and losses are taken to the statement of income.

**Non-trading investments**

These are classified as follows:

- ? Held to maturity
- ? Available for sale
- ? Originated by the Bank

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

Premiums and discounts on investments are amortised on a systematic basis to maturity using the effective interest method and taken to interest income.

*Held to maturity*

Investments which have fixed or determinable payments which are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

*Available for sale*

After initial recognition, investments which are classified as “available for sale” are remeasured at fair value. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the statement of income.

Any gains or losses arising from a change in fair value of available for sale investments which are part of an effective hedging relationship are recognised directly in the statement of income to the extent of the changes in fair value being hedged.

*Originated by the Bank*

Investments in debt securities which are funded directly to the issuer are stated at amortised cost less provision for impairment. An adjustment is made to such investments where effective fair value hedges have been made to adjust the value of the investment for the fair value being hedged with the resultant gains or losses being recognised in the statement of income.

**Loans and advances**

These are stated at cost less any amounts written off and provision for impairment. The carrying values of loans which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognised in the statement of income.

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

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

**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 at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**Taxation**

Taxation is provided for in accordance with the fiscal regulations of the 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.

**Deposits**

All money market and customer deposits are carried at amortised costs less amounts repaid. An adjustment is made to these where effective fair value hedges have been made to adjust the value of the deposit for the value being hedged with the resultant gains and losses being recognised in the statement of income.

**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.

**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. Interest accruing on loans and advances considered impaired is excluded from income until received. Subsequently, notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. 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 the statement of 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 statement of income as part of the profit or loss on sale.

**Cash and cash equivalents**

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**Employees' end of service benefit**

The Bank provides end of service benefits for its employees. The entitlement of these benefits is usually based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are usually accrued over the period of employment. Actuarial gains and losses are recognised as income or expense where material. These gains are recognised over the expected average employment periods of the employees.

**Derivatives**

The Bank enters into derivative instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

For the purposes 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 recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the statement of income. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the statement of income in the period in which the hedged transaction impacts the statement of income or included in the initial measurement of the cost of the related asset or liability

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken to the statement of income.

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 in time, any cumulative gains or losses on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses recognised in equity are transferred to the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**Impairment and uncollectability of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows is recognised in the statement of income.

The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. These have been estimated based on historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

**Trade and settlement date accounting**

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Fair values**

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

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics .

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 discounted cash flows.

For loans where no quoted market prices are available, future cash flows are discounted at current market rates for loans with similar terms and risk characteristics.

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Cash on hand	176,707	209,354
Balances with Central Banks	<u>953,954</u>	<u>850,059</u>
	<u>1,130,661</u>	<u>1,059,413</u>

**4 FOREIGN CURRENCY BALANCES**

Net assets amounting to the Indian Rupee equivalent of AED 49.1 million (2000: AED 34.3 million) held in India are subject to the exchange control regulations of India.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**5 TRADING INVESTMENTS**

The classification of trading investments was as follows:

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Quoted debt securities	13,522	385,414
Others	<u>-</u>	<u>3,148</u>
	<u>13,522</u>	<u>388,562</u>

**6 LOANS AND ADVANCES TO CUSTOMERS**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Overdrafts	4,261,631	6,340,845
Personal instalment loans	2,627,685	2,465,579
Term loans	10,378,174	9,228,955
Credit cards	103,343	95,723
Other facilities	<u>436,987</u>	<u>428,458</u>
	17,807,820	18,559,560
Less: provision for impaired loans and advances	<u>(1,452,304)</u>	<u>(1,287,522)</u>
	<u>16,355,516</u>	<u>17,272,038</u>

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
At 1 January	1,287,522	1,141,553
Currency translation adjustment	(610)	(1,102)
Net amounts written off	(4,854)	(10,044)
Opening balance adjustment arising from application of IAS 39	52,871	-
Recoveries	(22,248)	(9,300)
Charge for the year	183,417	166,415
Interest on impaired loans and advances (note 18)	<u>(43,794)</u>	<u>-</u>
At 31 December	<u>1,452,304</u>	<u>1,287,522</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**6 LOANS AND ADVANCES TO CUSTOMERS** continued

The composition of the loans and advances portfolio net of provision for impairment and interest in suspense is as follows:

	<b>2001</b>			<b>2000</b>		
	<i>Domestic</i> <i>AED 000</i>	<i>International</i> <i>AED 000</i>	<i>Total</i> <i>AED 000</i>	<i>Domestic</i> <i>AED 000</i>	<i>International</i> <i>AED 000</i>	<i>Total</i> <i>AED 000</i>
<b><i>Economic sector</i></b>						
Agriculture	618,090	-	618,090	632,228	-	632,228
Energy	529,203	53,258	582,461	602,505	-	602,505
Trading	1,260,797	40,622	1,301,419	1,251,662	29,274	1,280,936
Construction	1,630,305	31,596	1,661,901	1,698,729	41,076	1,739,805
Transport	419,903	25,449	445,352	384,519	82,884	467,403
Personal	9,051,599	23,097	9,074,696	8,505,646	35,203	8,540,849
Government	790,152	133,949	924,101	2,543,575	215,851	2,759,426
Others	<u>1,515,404</u>	<u>232,092</u>	<u>1,747,496</u>	<u>1,088,843</u>	<u>160,043</u>	<u>1,248,886</u>
<b>Total</b>	<b><u>15,815,453</u></b>	<b><u>540,063</u></b>	<b><u>16,355,516</u></b>	<b><u>16,707,707</u></b>	<b><u>564,331</u></b>	<b><u>17,272,038</u></b>

At 31 December 2001, loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 3,510 million (2000: AED 3,293 million). As at 31 December 2001, interest in suspense amounted to AED 3,599 million (2000: AED 3,410 million).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**7 NON TRADING INVESTMENTS**

	<i>2001</i>
	<i>AED 000</i>
<i>Available for sale investments</i>	
Quoted investments	1,170,386
Unquoted investments	<u>53,233</u>
	<u>1,223,619</u>
<i>Held to maturity investments</i>	
Floating Rate Notes	373,420
Securities	<u>594,360</u>
	<u>967,780</u>
<i>Originated</i>	
Bonds	<u>962,803</u>
	<u>3,154,202</u>

The prior year figures of investments were classified as follows:

	<i>2000</i>
	<i>AED 000</i>
Trading investments	388,562
Investment securities	<u>1,265,119</u>
	<u>1,653,681</u>

Included under available for sale investments are unquoted investments with a value of AED 53,233 thousand which are carried at cost. This is due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value. The Bank's share in the net asset values of these unquoted investments based on the latest available financial information is AED 66,446 thousand.

The fair value of held to maturity investments and originated investments at 31 December 2001 amount to AED 1,014,792 thousand and AED 971,765 thousand respectively.

**8 OTHER ASSETS**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Interest receivable	133,999	193,518
Advance taxation	40,174	9,105
Prepayments	8,295	8,111
Positive fair value of derivatives (note 25)	5,037	1,405
Clearing receivables	83,608	92,218
Others	<u>35,164</u>	<u>51,098</u>
	<u>306,277</u>	<u>355,455</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**9 PROPERTY AND EQUIPMENT**

	<i>Freehold property AED 000</i>	<i>Leasehold property AED 000</i>	<i>Furniture, equipment and vehicles AED 000</i>	<i>Total AED 000</i>
<i>Cost or valuation:</i>				
At 1 January 2001	204,589	9,675	87,484	301,748
Currency translation adjustment	(165)	(1)	(142)	(308)
Additions during the year	9,808	1,103	6,416	17,327
Cost of disposals	<u>-</u>	<u>(1,092)</u>	<u>(8,924)</u>	<u>(10,016)</u>
At 31 December 2001	<u>214,232</u>	<u>9,685</u>	<u>84,834</u>	<u>308,751</u>
<i>Depreciation:</i>				
At 1 January 2001	76,374	7,570	71,629	155,573
Currency translation adjustment	(11)	-	(108)	(119)
Provided during the year	9,148	793	7,754	17,695
Disposals	<u>-</u>	<u>(1,089)</u>	<u>(8,871)</u>	<u>(9,960)</u>
At 31 December 2001	<u>85,511</u>	<u>7,274</u>	<u>70,404</u>	<u>163,189</u>
<i>Net book value:</i>				
At 31 December 2001	<u>128,721</u>	<u>2,411</u>	<u>14,430</u>	<u>145,562</u>
At 31 December 2000	<u>128,215</u>	<u>2,105</u>	<u>15,855</u>	<u>146,175</u>

Freehold property includes properties recorded at directors' valuation with a gross carrying value of AED 37 million (2000 : AED 37 million). Included in additions to freehold property during the year is an amount of AED 1.3 million (2000 : AED nil) which represents collateral acquired in settlement of loans and advances.

**10 DUE TO BANKS**

	<i>2001 AED 000</i>	<i>2000 AED 000</i>
Current and demand deposits	77,400	42,525
Deposits maturing within one year	2,196,887	1,889,360
Deposits maturing after one year	<u>858,302</u>	<u>885,690</u>
	<u>3,132,589</u>	<u>2,817,575</u>

**11 LONG TERM LOAN**

A long term interest bearing loan of AED 1,200 million (2000 : 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 60 million (2000 : AED 66 million) which has been charged as an expense for the year (note 19).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**12 OTHER LIABILITIES**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Interest payable	95,313	164,776
Staff terminal benefits	52,862	47,135
Accounts payable and sundry creditors	77,554	89,584
Income received in advance	8,729	9,619
Negative fair value of derivatives (note 25)	92,306	-
Others	<u>91,549</u>	<u>88,294</u>
	<u>418,313</u>	<u>399,408</u>

The negative fair value is in respect of derivatives held for hedging the fair value of certain loans and advances and non-trading investments. A positive increase of a similar amount has been adjusted to the carrying value of these hedged loans and advances and non-trading investments.

**13 TAXATION**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
<i>Current liability:</i>		
Current year	<u>2,339</u>	<u>2,819</u>
<i>Income statement:</i>		
Current year	<u>9,421</u>	<u>7,616</u>

**14 SHARE CAPITAL**

	<i>2001</i>	<i>2000</i>
	<i>Authorised</i>	<i>Issued and fully paid</i>
	<i>AED 000</i>	<i>AED 000</i>
Ordinary shares of AED 100 each	<u>1,500,000</u>	<u>1,250,000</u>

Abu Dhabi Investment Authority holds 64.796%, AED 809,953,700 (2000 : 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**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 2001, the Board of Directors has proposed to pay a cash dividend of 25% (AED 25 per share) amounting to AED 312,500,000 (2000 : 20%, AED 20 per share amounting to AED 250 million) out of the profits for the year subject to the approval of the shareholders at the Annual General Meeting.

**17 CUMULATIVE CHANGES IN FAIR VALUES**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Net unrealised gains during the year on available for sale investments	<u>20,624</u>	<u>-</u>

**18 INTEREST INCOME**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Loans and advances	1,185,745	1,282,735
Deposits with banks	211,495	306,332
Investment securities	166,736	50,515
Trading securities	953	25,199
Notional interest on impaired loans and advances (note 6)	<u>43,794</u>	<u>-</u>
	<u>1,608,723</u>	<u>1,664,781</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**19 INTEREST EXPENSE**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Bank deposits	204,197	125,756
Customers' deposits	572,323	717,037
Long term loan (note 11)	<u>60,000</u>	<u>66,000</u>
	<u>836,520</u>	<u>908,793</u>

**20 NET TRADING INCOME**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Foreign exchange	29,828	26,903
Trading securities	<u>733</u>	<u>3,133</u>
	<u>30,561</u>	<u>30,036</u>

**21 PROVISION FOR IMPAIRMENT OF INVESTMENTS**

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Provision for impairment of available for sale investments	<u>602</u>	<u>341</u>

**22 BASIC EARNINGS PER SHARE**

Basic 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>2001</i>	<i>2000</i>
Net profit for the year (AED 000)	<u>615,429</u>	<u>610,676</u>
Ordinary shares in issue throughout the year (000's)	<u>12,500</u>	<u>12,500</u>
Earnings per share (AED)	<u>49.23</u>	<u>48.85</u>

The Bank has not issued any instruments which would have an impact on earnings per share when exercised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**23 CASH AND CASH EQUIVALENTS**

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Cash and balances with Central Banks	1,130,661	1,059,413
Deposits with banks	2,812,328	1,821,276
Due to banks	<u>(1,448,758)</u>	<u>(962,925)</u>
	<u>2,494,231</u>	<u>1,917,764</u>

**24 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 impaired loans and advances.

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Loans and advances to customers	584,097	1,814,537
Customers' deposits	2,224,353	3,058,237
Irrevocable commitments and contingencies	897,807	35,215

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Interest and commission income	54,994	103,457
Interest expense	66,848	55,957

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**25 COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank has the following commitments at 31 December:

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
<i>Commitments on behalf of customers:</i>		
Acceptances	231,483	225,816
Letters of credit	1,093,982	1,170,289
Guarantees	7,625,889	10,968,688
Irrevocable commitments to extend credit maturing within one year	2,614,361	1,478,174
Commitments for future capital expenditure	4,503	6,994
<i>Derivative instruments:</i>		
Forward foreign exchange commitments	802,863	1,148,694
Interest rate swaps	1,805,093	872,965
Options	<u>45,913</u>	<u>34,893</u>
	<u>14,224,087</u>	<u>15,906,513</u>

***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.

The table below shows the notional amounts of derivative financial instruments analysed by the term to maturity. The notional amount 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 2001

25 COMMITMENTS AND CONTINGENT LIABILITIES continued

	<i>Notional amounts by term to maturity</i>			
	<i>Total</i>	<i>Within 3</i>	<i>Within</i>	
	<i>AED 000</i>	<i>months</i>	<i>3-12months</i>	<i>1-5 years</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
<b><i>At 31 December 2001</i></b>				
<i>Derivatives held for trading:</i>				
Options	45,913	9,183	-	36,730
Interest rate swaps	330,570	-	-	330,570
<i>Derivatives held for hedging:</i>				
Interest rate swaps	1,474,523	18,365	116,286	1,339,872
Forward foreign exchange contracts	<u>802,863</u>	<u>749,816</u>	<u>53,047</u>	<u>-</u>
	<u>2,653,869</u>	<u>777,364</u>	<u>169,333</u>	<u>1,707,172</u>
<b><i>At 31 December 2000</i></b>				
<i>Derivatives held for trading:</i>				
Options	34,893	-	25,711	9,182
<i>Derivatives held for hedging:</i>				
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>

At 31 December 2001 the positive and negative fair values of these derivatives amounted to AED 5,037 thousand and AED 92,306 thousand respectively. These are included in other assets (note 8) and other liabilities (note 12).

***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 fair 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.

***Derivatives held or issued for trading purposes***

Most of the Bank's derivative trading activities relate to 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

25 COMMITMENTS AND CONTINGENT LIABILITIES continued

*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 to hedge interest rate risk. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
	<i>equivalent</i>	<i>equivalent</i>
	<i>long (short)</i>	<i>long (short)</i>
US Dollar	1,178,349	(330,608)
Indian Rupees	31,451	19,624
Omani Riyal	(40)	36,125
Pound Sterling	1,650	(1,890)
Euro	(718)	3,309
Bahrani Dinar	417	2,507
Saudi Riyal	1,083	984

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**26 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>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Operating income	<u>908,251</u>	<u>889,374</u>	<u>62,038</u>	<u>54,209</u>	<u>970,289</u>	<u>943,583</u>
Segment result and profit from operations	563,236	564,144	52,362	45,730	615,598	609,874
Other income	9,252	8,418	-	-	9,252	8,418
Income tax expense - unallocated					<u>(9,421)</u>	<u>(7,616)</u>
Net profit for the year					<u>615,429</u>	<u>610,676</u>
<i>Other Information</i>						
Segment assets	<u>16,701,315</u>	<u>17,496,308</u>	<u>9,891,576</u>	<u>7,805,317</u>	<u>26,592,891</u>	<u>25,301,625</u>
Segment liabilities	<u>12,587,356</u>	<u>13,726,969</u>	<u>9,891,576</u>	<u>7,805,317</u>	22,478,932	21,532,286
Equity					<u>4,113,959</u>	<u>3,769,339</u>
<b>Total liabilities and equity</b>					<u>26,592,891</u>	<u>25,301,625</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**26 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. 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>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Total operating income	<u>940,867</u>	<u>919,305</u>	<u>29,422</u>	<u>24,278</u>	<u>970,289</u>	<u>943,583</u>
Profit before taxation	606,548	603,507	18,302	14,785	624,850	618,292
Income tax expense	<u>-</u>	<u>-</u>	<u>9,421</u>	<u>7,616</u>	<u>9,421</u>	<u>7,616</u>
Net profit for the year	<u>606,548</u>	<u>603,507</u>	<u>8,881</u>	<u>7,169</u>	<u>615,429</u>	<u>610,676</u>
Segment assets	<u>25,133,837</u>	<u>23,994,004</u>	<u>1,459,054</u>	<u>1,307,621</u>	<u>26,592,891</u>	<u>25,301,625</u>
Segment liabilities	<u>21,036,675</u>	<u>20,160,601</u>	<u>1,442,257</u>	<u>1,371,685</u>	<u>22,478,932</u>	<u>21,532,286</u>
Capital expenditure incurred in the year	<u>16,604</u>	<u>28,908</u>	<u>723</u>	<u>356</u>	<u>17,327</u>	<u>29,264</u>

**27 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 2001

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

The distribution of assets, liabilities and off balance sheet items by geographic region and industry sector was as follows:

	<b>2001</b>			<b>2000</b>		
	<i>Assets AED 000</i>	<i>Liabilities and equity AED 000</i>	<i>Off-balance sheet items AED 000</i>	<i>Assets AED 000</i>	<i>Liabilities and equity AED 000</i>	<i>Off-balance sheet items AED 000</i>
<b>Geographic region</b>						
Domestic (UAE)	17,827,645	23,997,027	6,637,095	18,423,997	23,358,277	5,484,140
Other GCC countries	2,477,038	198,993	944,385	2,165,884	331,471	1,290,424
Other Arab countries	1,709	115,051	23,838	224	97,724	71,644
South Africa	610,970	14,376	279,027	499,931	1,764	115,812
India	1,631,378	1,466,443	695,998	1,435,929	1,381,565	1,021,451
Europe	544,117	487,717	4,368,199	884,701	58,017	6,611,329
USA	143,632	40,935	367,518	51,932	5,017	202,426
Japan	2,022	852	158,753	1,635	306	29,563
Hong Kong	184,569	-	264	74,595	-	281
Singapore	382,174	-	13,359	352,163	34,313	9,182
South Korea	2,317,054	335	669,957	1,093,064	331	810,288
Rest of the world	<u>470,583</u>	<u>271,162</u>	<u>65,694</u>	<u>317,570</u>	<u>32,840</u>	<u>259,973</u>
<b>Total</b>	<b><u>26,592,891</u></b>	<b><u>26,592,891</u></b>	<b><u>14,224,087</u></b>	<b><u>25,301,625</u></b>	<b><u>25,301,625</u></b>	<b><u>15,906,513</u></b>
<b>Industry sector</b>						
Commercial & business	5,971,203	3,464,079	3,864,265	5,231,279	2,650,013	3,930,695
Personal	9,129,282	9,031,679	774,006	8,617,489	8,849,794	525,265
Public sector	538,874	808,702	9,484	757,119	650,212	77,289
Government	3,929,537	8,512,451	1,906,447	4,275,215	9,822,633	965,443
Banks and financial institutions	<u>7,023,995</u>	<u>4,775,980</u>	<u>7,669,885</u>	<u>6,420,523</u>	<u>3,328,973</u>	<u>10,407,821</u>
<b>Total</b>	<b><u>26,592,891</u></b>	<b><u>26,592,891</u></b>	<b><u>14,224,087</u></b>	<b><u>25,301,625</u></b>	<b><u>25,301,625</u></b>	<b><u>15,906,513</u></b>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**29 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 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. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2001 was as follows:

	<i>Effective Rate</i>	<i>Less than 3 months AED 000</i>	<i>3 months to less than 6 months AED 000</i>	<i>6 months to less than 1 year AED 000</i>	<i>1 Year to less than 3 years AED 000</i>	<i>Over 3 years AED 000</i>	<i>Non-interest bearing items AED 000</i>	<i>Total AED 000</i>
<b>ASSETS</b>								
Cash and balances with Central Banks	-	-	-	-	-	-	1,130,661	1,130,661
Deposits with banks	2.48	4,896,670	546,818	-	-	-	37,989	5,481,477
Funds under management	2.23	5,674	-	-	-	-	-	5,674
Trading investments	10.42	13,522	-	-	-	-	-	13,522
Loans and advances to customers	6.65	9,715,537	1,051,266	749,265	1,507,867	1,274,179	2,057,402	16,355,516
Non trading investments	6.00	1,761,173	403,769	79,969	136,253	633,323	139,715	3,154,202
Other assets	-	-	-	-	-	-	306,277	306,277
Property and equipment	-	-	-	-	-	-	145,562	145,562
Total assets		<u>16,392,576</u>	<u>2,001,853</u>	<u>829,234</u>	<u>1,644,120</u>	<u>1,907,502</u>	<u>3,817,606</u>	<u>26,592,891</u>
<b>LIABILITIES AND EQUITY</b>								
Due to banks	4.54	2,120,591	78,419	-	-	858,302	75,277	3,132,589
Customers' deposits	2.47	11,720,926	2,270,436	655,947	43,955	9,268	3,025,159	17,725,691
Long term loan	5.00	-	-	-	1,200,000	-	-	1,200,000
Other liabilities	-	-	-	-	-	-	418,313	418,313
Taxation	-	-	-	-	-	-	2,339	2,339
Equity	-	-	-	-	-	-	4,113,959	4,113,959
Total liabilities and equity	-	<u>13,841,517</u>	<u>2,348,855</u>	<u>655,947</u>	<u>1,243,955</u>	<u>867,570</u>	<u>7,635,047</u>	<u>26,592,891</u>
On-balance sheet gap	-	2,551,059	(347,002)	173,287	400,165	1,039,932	(3,817,441)	-
Off-balance sheet gap	-	<u>833,642</u>	<u>613,334</u>	<u>(107,103)</u>	<u>(683,799)</u>	<u>(656,074)</u>	-	-
Total interest rate sensitivity gap	-	<u>3,384,701</u>	<u>266,332</u>	<u>66,184</u>	<u>(283,634)</u>	<u>383,858</u>	<u>(3,817,441)</u>	-
Cumulative interest rate sensitivity gap	-	<u>3,384,701</u>	<u>3,651,033</u>	<u>3,717,217</u>	<u>3,433,583</u>	<u>3,817,441</u>	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

**29 INTEREST RATE RISK** continued

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</i>	<i>3 months to less than 6 months AED 000</i>	<i>6 months to less than 1 year AED 000</i>	<i>1 Year to less than 3 years AED 000</i>	<i>Over 3 years AED 000</i>	<i>Non-interest bearing items AED 000</i>	<i>Total AED 000</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 investments	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
Non -trading investments	10.03	310,526	177,325	36,714	-	613,860	126,694	1,265,119
Other assets	-	-	-	-	-	-	355,455	355,455
Property and equipment	-	-	-	-	-	-	146,175	146,175
<b>Total assets</b>		<b>16,208,586</b>	<b>1,304,691</b>	<b>872,565</b>	<b>1,454,436</b>	<b>1,717,220</b>	<b>3,744,127</b>	<b>25,301,625</b>
<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
<b>Total liabilities and equity</b>		<b>14,047,071</b>	<b>1,336,494</b>	<b>589,013</b>	<b>1,350,685</b>	<b>885,690</b>	<b>7,092,672</b>	<b>25,301,625</b>
On-balance sheet gap	-	2,161,515	(31,803)	283,552	103,751	831,530	(3,348,545)	-
Off-balance sheet gap	-	55,095	817,870	(36,730)	(285,285)	(550,950)	-	-
<b>Total interest rate sensitivity gap</b>		<b>2,216,610</b>	<b>786,067</b>	<b>246,822</b>	<b>(181,534)</b>	<b>280,580</b>	<b>(3,348,545)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>2,216,610</b>	<b>3,002,677</b>	<b>3,249,499</b>	<b>3,067,965</b>	<b>3,348,545</b>	<b>-</b>	<b>-</b>

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 2001

**30 LIQUIDITY RISK**

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade 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 2001 was as follows:

		<i>3 months to less than 6 months</i>	<i>6 months to less than 1 year</i>	<i>1 year to less than 3 years</i>	<i>3 years to less than 5 years</i>	<i>Over 5 years</i>	
	<i>Total AED 000</i>	<i>Less than 3 months AED 000</i>	<i>6 months AED 000</i>	<i>1 year AED 000</i>	<i>3 years AED 000</i>	<i>5 years AED 000</i>	<i>Over 5 years AED 000</i>
<b>ASSETS</b>							
Cash and balances							
with Central Banks	1,130,661	1,130,661	-	-	-	-	-
Deposits with banks	5,481,477	4,934,659	546,818	-	-	-	-
Funds under management	5,674	5,674	-	-	-	-	-
Trading investments	13,522	13,522	-	-	-	-	-
Loans and advances							
to customers	16,355,516	9,521,575	1,950,517	806,434	1,538,927	1,093,747	1,444,316
Non trading investments	3,154,202	239,800	88,866	332,274	1,695,257	780,503	17,502
Other assets	306,277	220,850	55,674	18,079	11,296	378	-
Property and equipment	<u>145,562</u>	-	-	-	-	-	<u>145,562</u>
Total assets	<u>26,592,891</u>	<u>16,066,741</u>	<u>2,641,875</u>	<u>1,156,787</u>	<u>3,245,480</u>	<u>1,874,628</u>	<u>1,607,380</u>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	3,132,589	2,195,868	78,419	-	-	858,302	-
Customers' deposits	17,725,691	14,746,085	2,270,436	655,947	43,955	9,268	-
Long term loan	1,200,000	-	-	-	-	-	1,200,000
Other liabilities	418,313	216,229	25,944	29,526	35,248	58,504	52,862
Taxation	2,339	2,339	-	-	-	-	-
Equity	<u>4,113,959</u>	<u>312,500</u>	-	-	-	-	<u>3,801,459</u>
Total liabilities and equity	<u>26,592,891</u>	<u>17,473,021</u>	<u>2,374,799</u>	<u>685,473</u>	<u>79,203</u>	<u>926,074</u>	<u>5,054,321</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

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**30 LIQUIDITY RISK** continued

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

			<i>3 months to less than 6 months</i>	<i>6 months to less than 1 year</i>	<i>1 year to less than 3 years</i>	<i>3 years to less than 5 years</i>	<i>Over 5 years</i>
	<i>Total</i>	<i>Less than 3 months</i>	<i>6 months</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>Over 5 years</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</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 investments	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
Non trading investments	1,265,119	177,948	156,058	117,419	174,741	638,953	-
Other assets	355,455	317,000	18,185	19,468	454	348	-
Property and equipment	<u>146,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,175</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 date to the contractual maturity date.

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**31 FAIR VALUE OF FINANCIAL INSTRUMENTS**

While the Bank prepares its financial statements under the historical cost convention modified for measurement to fair value of trading and available for sale investment securities and derivatives, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the flows.

The fair value of held to maturity investments and originated by the Bank investments are disclosed in note 7. Also, as explained in note 7, included in available for sale investments are unquoted investments with a carrying value of AED 53.2 million for which fair value cannot be reliably determined.

**32 CAPITAL ADEQUACY**

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

	<i>2001</i>	<i>2000</i>
	<i>AED 000</i>	<i>AED 000</i>
Total capital base	<u>3,801,459</u>	<u>3,519,339</u>
Risk weighted assets:		
Balance sheet items	17,245,669	14,911,587
Off-balance sheet exposures	<u>3,376,153</u>	<u>4,112,179</u>
Total risk weighted assets	<u>20,621,822</u>	<u>19,023,766</u>
Total assets ratio (%)	<u>18.43</u>	<u>18.50</u>