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

Hamad Saeed Mohammed Al Badi
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

CHAIRMAN'S REPORT
As at 31 December 2002

On behalf of the Board of Directors, I am pleased to present Abu Dhabi Commercial Bank's 18th Annual Report for the year ending 31 December 2002. I am also pleased to announce that the Bank realized a net profit of AED 590 million after full implementation and compliance with International Accounting Standards (IAS) and the U.A.E. applicable laws. Further, I take pleasure in announcing that the Board of Directors have recommended the distribution of a 25% dividend to our shareholders.

Notwithstanding the local, regional and international circumstances witnessed by the area and despite the slight decrease in the Bank profit level compared to last year, the year 2002 showed positive results, with other indicators displaying good growth. Total assets stood at AED 27,683 million, compared to AED 26,593 million achieved in 2001, representing an increase of 4%. Loans and Advances to Customers grew to AED 17,400 million in 2002 compared to AED 16,356 million in the previous year, an increase of 6.3%. Further, Customer Deposits registered an increase of 3% to AED 18,263 million compared to 2001. Shareholders Equity registered an increase of 6.9% to reach AED 4,398 million before distribution of dividends, which represent a total of AED 312.5 million.

With regard to the U.A.E. economic performance and despite the adverse international and regional circumstances, the primary indexes indicated that the local economy grew at the rate of 2.5%, with some of its sectors witnessing various degrees of rapid growth, due to the wise policy of His Highness the President of the United Arab Emirates.

On the international level, the economic recession continued to be reflected in the three main economic regions, despite their endeavours to revive their economies. For example, in the United States the Federal Reserve continued to reduce interest rates until the Fed Funds rate reached its lowest level for 40 years, with the same situation also applying to the European and East Asia countries.

The Board of Directors continually endeavour to meet the changes and challenges facing the banking sector, on both the local and international levels, so that the Bank can adapt to new trends and practices and thus provide enhanced customer services. It is within this framework that the Board of Directors, represented by its Strategy Committee, continued to implement the recommendations made following the review of the Bank's management structure. This involved the expansion and support of existing structures, as well as the establishment of new functions and the employment of additional experienced staff, so as to strengthen performance and face the economic challenges and business risks, as well as to keep pace with the ever changing developments in technology and automation.

In pursuance of the Emiratisation policy, the Bank has achieved good success in this field by being able to recruit more qualified Nationals. We shall continue with this approach so as to achieve these National aims and objectives.

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 Chairman 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 His Highness Sheikh Maktoum Bin Rashid Al Maktoum, the Vice President, Prime Minister and Ruler of Dubai and to their Highness, 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 His Highness Sheikh Ahmed Bin Zayed Al Nahyan, the Managing Director of Abu Dhabi Investment Authority, Abu Dhabi Finance Department and 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 cooperation and to ADCB’s management and staff for their loyalty, effort and dedication.

Fadhel Saeed Al Darmaki

Chairman

MANAGEMENT REVIEW: 2002

OVERVIEW

Despite dynamic macroeconomic management through easier monetary and fiscal policies in attempts to boost sluggish economies in the US and Europe, year 2002 marked the third consecutive year of poor returns as the fragile global economy continued to falter. Given the integration and interdependency of world economies, where the U.S market leads, others follow. The declines of 2002 were spread across the globe with U.K, Japan, Germany and Latin America ending the year in deeply negative territory and trapped in a grim cycle.

While unsustainable imbalances in the US economy and heightened geo-political tensions resulted in the US Dollar suffering its biggest annual fall in 15 years, the price of oil climbed above USD 30 by year end – its highest level in 15 months!

In the UAE, oil revenue and government expenditure continued to be major drivers of economic activity despite healthy growth in the private sector. Oil production on account of the country's adherence to the OPEC enforced quota was down by 5 percent in 2002 compared with 2001 which, to a certain extent nullified the impact of higher oil prices. Total oil revenue, which represent some 70% of total country income, is estimated to have reached AED 66.5 Bio in 2002 up by 1.5 per cent compared with 2001. This, coupled with healthy growth in the non-oil sectors had enabled the country to record an overall growth rate of around 2.5 per cent for 2002 to reach AED 246 Bio. Heightened activities in construction, trade, tourism, services and the finance sectors propelled the non-oil sectors to post a GDP growth of 5.3 percent from 3.7 percent of a year ago.

FINANCIAL RESULTS

Against the backdrop of world financial markets racked by an economic slump and geo-political uncertainties throughout the year, ADCB's performance was excellent with results achieved exceeding its anticipated projections. Despite 2002 being an extremely challenging year, ADCB remained focused on maintaining its strong franchise, high asset quality and robust productivity.

The Bank's total assets increased to AED 27,683 Mio from AED 26,593 Mio a year ago, representing a growth of 4 percent. Loans and advances to customers jumped 6.3 percent to AED 17,400 Mio from AED 16,356 Mio in 2001.

ADCB's customer deposits rose 3 percent to AED 18,263 Mio from AED 17,726 Mio in 2001. Total equity was strengthened to AED 4,398 Mio from AED 4,114 Mio, representing a growth of 6.9 percent, which has bestowed us with an advantage for future growth.

Although all earning components contributed to our profitability, a falling interest rate environment and our conservative provisioning policy resulted in net profit declining 4 percent to AED 590 Mio from AED 615 Mio a year ago.

RISK MANAGEMENT

In spite of healthy growth in the private sector, however, we were prudent in our lending activities in few areas in this sector, which is normally associated with higher margin, but higher risks too. Besides the unprecedented series of interest rate cuts during 2001 and 2002 had a negative effect on net interest margins and overall revenue.

Nevertheless, our existing client-base and sectoral allocation had to a certain extent been maintained. Thus, trade finance 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 conducive for introducing major new lending products and services, the Bank relied mainly on its traditional and proven financing vehicles during the year.

A much greater emphasis was placed on consolidation, restructuring and follow up of advances, so as to avoid serious impairments. As the Bank is fully observing IAS-39 (International Accounting Standards-39) and implementing a Risk Management regime, reviews of advances and remedial action continued to remain significant during the year. More attention and effort are therefore being invested into maintaining or improving the quality of our lending portfolio and management of Credit Risk.

On the functional side of lending activity, an IRB (Internal Rating Based) System was introduced in order to rate the borrowers and to better assess the quality of the Bank's lending portfolio. Besides, credit training and seminars were extensively held during the year to keep our loan analysts and officers fully abreast of on-going developments in bank credit management. Further, due attention was paid to fast developing technology and its utility towards bringing enhanced efficiency in the lending functions of the Bank.

In cognizance of new international and domestic anti-money laundering legislation placing ever greater obligations on banks to prevent misuse of their services and of our stakeholder expectations, ADCB is proud to confirm that its policies and procedures meet the compliance requirements of the UAE Central Bank. The Bank continues to conduct interactive staff training workshops, whose focus is on embracing 'Know Your Customer' standards, due diligence analysis, responses to troubling information and guidance on suspect transactions.

Additionally, in line with our consultants' recommendations, a high powered Strategy Committee has been set up for formulation of policies and processes and whose function, interalia, is to facilitate better utilisation of the bank's core competencies, development of new capabilities, higher standards of performance and customer service, re-engineering of solutions and a robust risk management process.

CORPORATE BANKING, PROJECT FINANCE & LOAN SYNDICATIONS

Our domestic project financing activity continued to be dominated by the power and water sector and the year saw the commencement of two large new projects. As a leading bank in the country ADCB assumed significant roles in these projects, providing non-funded facilities for the Shuweihat project and acting as an Arranger for the IWPP at Fujairah.

As the facility for generation of water at Shuweihat called for the need to physically transport the produce to the end users, the Abu Dhabi Water & Electricity Authority embarked upon a project for construction of pipelines and associated equipment to handle the transportation of some 100 million gallons of water per day. ADCB was privileged to be a Co-Lead Arranger for this USD 781 Mio project for which the EPC contractor is the Marubeni Taisei consortium.

Reducing interest rates enabled our corporate customers to strengthen their ability to compete in a somewhat challenging marketplace. The Bank has been a consistent supporter of trade transactions of our customers with international partners. The Syndications Group also successfully concluded a number of short-term trade finance and risk participation deals with reputed international counter-parties which contributed significantly to our fee income. The Group co-operates closely with the bank's India branches, frequently locating and directing transactions to the Mumbai and Bangalore branches.

The Bank has been an active participant in projects in neighboring countries. However, adverse economic scenarios faced by investment banking companies and political developments worldwide have had their impacts on our risk perceptions. The Bank assumed a cautious posture generally, and particularly on long term exposures and cross-border risks.

Looking to the near future, the coming year promises to generate further opportunities in water and electricity sector developments. ADWEA's Umm Al Nar privatisation and Taweelah RO projects are already at advanced stages. The Dolphin project of the UAE Offsets Group is steadily taking shape. Sustained buoyancy in investments in UAE and the Gulf region are expected to bring fresh opportunities to the banking community at large.

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 and 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 2002, 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 2002 the installation of the Branch Automation System was completed in all the 38 branches. This marks a major step towards preparing the technology environment to install a new Mainframe System for retail operations in the months to come. Certain strategic amendments were carried out to the branch front-end systems that include centralising and capturing of customer information and preparing for centralised signature cards and its dissemination. In terms of infra-structural support, the entire area network was suitably upgraded to support the current Oasis 3 Application and the system is now well positioned to co-exist with the new Core Banking System. The Branch Automation System in its current form is viewed as a major milestone towards facilitating smoother migration from the current mainframe environment. This would also avert major technical complexities and delays that may have arisen in such a large project.

The current mainframe hardware at the active and disaster sites was suitably upgraded during the year to increase its load handling capacity in order to support increased processing volumes. The year also saw a substantial increase in the installation of ATM machines at new locations and as part of a technology revamp exercise, older ATMs were replaced.

In the area of Card Products Automation, substantial system enhancements were carried out to support business growth and to comply with regulatory mandates from MasterCard International and Visa International. Work done to achieve MasterCard's mandate on Integrated Product Messaging (IPM) standards is worth special mention, as we were amongst the first few banks to have obtained certification towards IPM compliance in the region. Major enhancement to introduce special loyalty programmes was carried out during the year. In the arena of new product introduction major system enhancements were completed to introduce the Platinum Mastercard customised for ADCB's high networth clients.

The Trade Finance System has been substantially enhanced in an endeavour to consolidate customer information at a central location and to aid centralisation in the processing environment through use of web based technology.

The Management Information System of the Bank has undergone major design changes to introduce daily reports pertaining to Central Bank on commercial credits.

As part of a three year IT Strategy approved by the Board in early 2002, a bank-wide system study was conducted with assistance from M/s. Ernst and Young to document the current processes and business practices and the same were benchmarked against best in class practices of the industry. The outcome of this diligence served as a major input to conducting a 'Request For Proposal (RFP)' exercise with prospective vendors for the core-banking suite of applications. The evaluation and presentation from short-listed vendors has been completed and the Bank is now in the process of selecting a new system. A parallel 'Request For Proposal' was also floated to replace the current facilities in the cards area in a bid to introduce smart cards as per VISA /MasterCard mandates.

TREASURY AND INVESTMENT SERVICES

Despite the global economic downturn and the resultant market uncertainties throughout the year, our Treasury and Investment Banking activities continued to grow and recorded a successful year.

In 2002, the Treasury Department expanded and developed diverse offerings for specific market segments, covering a spectrum of foreign exchange, interest rate and other derivative products with a view to maximising market opportunities for the Bank and its constituents.

As customers sought more convenient ways to manage their finances, the Investment Department broadened its array of customised products and services to assist personalised wealth management.

CARD CENTRE

The Bank continued to maintain the growth of its credit and debt card business on MasterCard, VISA, American Express, CASHLINK, Cirrus and Maestro, in spite of the stiff competition amongst competitor banks in the UAE. The Bank witnessed increase in the number of cards issued and also in the number and volume of transactions generated.

The Bank made a strategic move to introduce the Platinum MasterCard Card to its existing card portfolio during the year. This premium product was launched in January 2003. The Bank also embarked on a project to issue Smart/Chip cards in the near future.

INDIAN OPERATIONS

The Indian Operations performed satisfactorily but was constrained by the uneven performance and growth of the Indian economy. As part of the financial sector and banking reforms, new prudential standards and international practices were introduced by the Reserve Bank of India, which should further strengthen the financial system. The strategy of ADCB’s Indian Operation, which focuses on ‘niche banking’ as a means to retain market share, continued to drive our efforts throughout the year.

The skills and the product range developed over the years towards rendering service to the large Indian diaspora in the UAE has made ADCB a preferred bank amongst the Indian community in the UAE. Our offices in Abu Dhabi and Dubai continue to remain the focal point of such efforts and have been instrumental in channeling business to our Indian branches.

During the year the Bank launched its Cell Phone Banking initiative ‘Cellutions’, which was well received by customers. In combination with its Internet Banking Product ‘Netlink’, also launched last year, ADCB offers cutting edge technology for the convenience of its Indian customers.

OUTLOOK 2003

We are understandably cautious over the near term prospects due to the ongoing world economic weakness and the unstable situation in the region. Against these negative factors it is difficult to foresee tangible growth, particularly if oil prices fluctuate widely as a result.

ADCB is nonetheless committed to maintaining its competitive edge in quality banking, customer services, profit performance and capital adequacy by leveraging its technology and services to its best advantage.

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 2002, 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 2002, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting 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
For Ernst & Young
Partner
Registration No. 258

8th February 2003
Abu Dhabi

BALANCE SHEET
31 December 2002

	Notes	*2002* *AED 000*	*2001* *AED 000*	*2002* *US $000*
ASSETS				
Cash and balances with Central Banks	3	**1,298,431**	1,130,661	**353,507**
Due from banks		**5,280,603**	5,481,477	**1,437,681**
Funds under management		**5,695**	5,674	**1,550**
Trading investments	5	**4,408**	13,522	**1,200**
Loans and advances to customers	6	**17,400,494**	16,355,516	**4,737,407**
Non trading investments	7	**3,181,579**	3,154,202	**866,207**
Other assets	8	**368,081**	306,277	**100,213**
Property and equipment	9	**144,072**	145,562	**39,225**
TOTAL ASSETS		**27,683,363**	26,592,891	**7,536,990**
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks	10	**3,430,693**	3,132,589	**934,031**
Customers' deposits		**18,262,920**	17,725,691	**4,972,208**
Long term loan	11	**1,200,000**	1,200,000	**326,708**
Other liabilities	12	**390,058**	418,313	**106,196**
Taxation	13	**1,837**	2,339	**500**
TOTAL LIABILITIES		**23,285,508**	22,478,932	**6,339,643**
EQUITY				
Share capital	14	**1,250,000**	1,250,000	**340,321**
Statutory and legal reserves	15	**943,273**	825,205	**256,813**
General and contingency reserves	15	**1,850,000**	1,700,000	**503,676**
Proposed dividends	16	**312,500**	312,500	**85,080**
Retained earnings		**2,882**	5,630	**785**
Cumulative changes in fair values		**39,200**	20,624	**10,672**
TOTAL EQUITY		**4,397,855**	4,113,959	**1,197,347**
TOTAL LIABILITIES AND EQUITY		**27,683,363**	26,592,891	**7,536,990**
COMMITMENTS AND CONTINGENT LIABILITIES	23	**15,419,976**	14,224,087	**4,198,197**

Fadhel Saeed Al Darmaki
CHAIRMAN

Khalifa Mohammed Hassan
MANAGING DIRECTOR

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

INCOME STATEMENT
Year ended 31 December 2002

	Notes	2002 AED 000	2001 AED 000	2002 US $000
Interest income	17	**1,215,988**	1,608,723	**331,061**
Interest expense	18	**(503,939)**	(836,520)	**(137,201)**
Net interest income		**712,049**	772,203	**193,860**
Net fee and commission income		**150,697**	153,282	**41,028**
Net trading income	19	**34,118**	30,561	**9,289**
Dividend income		**1,923**	1,742	**524**
Gain on sale of non trading investments		**16,177**	4,218	**4,404**
Other operating income		**9,133**	8,283	**2,487**
OPERATING INCOME		**924,097**	970,289	**251,592**
Staff expenses		**(143,744)**	(130,468)	**(39,135)**
Depreciation	9	**(17,856)**	(17,695)	**(4,861)**
Other operating expenses		**(46,263)**	(44,757)	**(12,596)**
Provision for impaired loans and advances, net of recoveries	6	**(139,942)**	(161,169)	**(38,100)**
Provision for impairment of available for sale investments		**-**	(602)	**-**
OPERATING EXPENSES		**(347,805)**	(354,691)	**(94,692)**
PROFIT FROM OPERATIONS		**576,292**	615,598	**156,900**
Other income		**12,199**	9,252	**3,321**
PROFIT BEFORE TAXATION		**588,491**	624,850	**160,221**
Income tax write back (expense)	13	**1,846**	(9,421)	**502**
NET PROFIT FOR THE YEAR		**590,337**	615,429	**160,723**
Basic earnings per share – (2001 restated)	20	*AED* **4.72**	*AED* 4.92	*US $* **1.29**

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2002

	Note	*2002* *AED 000*	*2001* *AED 000*	*2002* *US $000*
OPERATING ACTIVITIES				
Net profit before taxation		**588,491**	624,850	**160,221**
Adjustments for:				
Currency translation		**232**	(1,126)	**63**
Depreciation		**17,856**	17,695	**4,861**
Profit on sale of property and equipment		**(14)**	(27)	**(4)**
Provision for impaired loans and advances, net of recoveries		**139,942**	161,169	**38,100**
Gain on sale of non-trading investments		**(16,177)**	(4,218)	**(4,404)**
Provision for impairment of available for sale investments		**-**	602	**-**
Operating profit before changes in operating assets and liabilities		**730,330**	798,945	**198,837**
Decrease in due from banks		**511,701**	318,797	**139,314**
Increase in funds under management		**(21)**	(33)	**(6)**
(Increase) decrease in loans and advances to customers		**(1,184,920)**	702,482	**(322,602)**
Decrease in trading investments		**9,114**	7,495	**2,481**
(Increase) decrease in other assets		**(33,338)**	80,247	**(9,076)**
Increase (decrease) in due to banks		**212,645**	(170,819)	**57,894**
Increase in customers' deposits		**537,229**	613,207	**146,264**
(Decrease) increase in other liabilities		**(28,830)**	18,855	**(7,849)**
Cash from operations		**753,910**	2,369,176	**205,257**
Directors' remuneration paid		**(1,275)**	(1,225)	**(347)**
Taxation paid		**(27,122)**	(40,970)	**(7,384)**
Net cash from operations		**725,513**	2,326,981	**197,526**
INVESTING ACTIVITIES				
Purchase of non-trading investments		**(1,063,119)**	(1,918,271)	**(289,442)**
Proceeds from sale of non-trading investments		**1,059,570**	435,001	**288,475**
Purchase of property and equipment		**(16,496)**	(17,327)	**(4,491)**
Proceeds from sale of property and equipment		**170**	83	**46**
Net cash used in investing activities		**(19,875)**	(1,500,514)	**(5,412)**
FINANCING ACTIVITIES				
Dividends paid		**(312,500)**	(250,000)	**(85,080)**
Cash used in financing activities		**(312,500)**	(250,000)	**(85,080)**
INCREASE IN CASH AND CASH EQUIVALENTS		**393,138**	576,467	**107,034**
Cash and cash equivalents at 1 January		**2,494,231**	1,917,764	**679,072**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	**2,887,369**	2,494,231	**786,106**

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

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2002

	Notes	*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 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)
Dividends paid	16	-	-	-	-	-	(250,000)	-	-	(250,000)
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)	-	-
Net movement in cumulative changes in fair values		-	-	-	-	-	-	-	20,624	20,624
Proposed dividends	16	-	-	-	-	-	312,500	(312,500)	-	-
Board of directors remuneration		-	-	-	-	-	-	(1,275)	-	(1,275)
Balance at 31 December 2001		**1,250,000**	**434,996**	**390,209**	**1,550,000**	**150,000**	**312,500**	**5,630**	**20,624**	**4,113,959**
Dividends paid	16	-	-	-	-	-	(312,500)	-	-	(312,500)
Net profit for the year – 2002		-	-	-	-	-	-	590,337	-	590,337
Realised gain on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	(10,925)	-	(10,925)
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	258	-	258
Transfer to statutory reserve	15	-	59,034	-	-	-	-	(59,034)	-	-
Transfer to legal reserve	15	-	-	59,034	-	-	-	(59,034)	-	-
Transfer to general reserve	15		-	-	150,000	-	-	(150,000)	-	-
Net movement in cumulative changes in fair values		-	-	-	-	-	-	-	18,576	18,576
Proposed dividends	16	-	-	-	-	-	312,500	(312,500)	-	-
Board of directors remuneration		-	-	-	-	-	-	(1,850)	-	(1,850)
Balance at 31 December 2002		**1,250,000**	**494,030**	**449,243**	**1,700,000**	**150,000**	**312,500**	**2,882**	**39,200**	**4,397,855**

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.

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 8 February 2003.

The Bank is a public joint stock 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 activities through its network of thirty-six branches in the United Arab Emirates and two branches in India and employed 1440 employees as of 31 December 2002 (2001: 1360 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 Financial Reporting Standards issued, or adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee 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 are consistent with those adopted in the previous year.

Due from banks
Due from 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 income statement.

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 income statement.

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.

2 SIGNIFICANT ACCOUNTING POLICIES continued

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

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 income statement.

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 income statement 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 income statement.

Loans and advances
Loans and advances are stated at cost less any amounts written off and provision for impairment. The carrying values of loans and advances 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 income statement.

Impaired loans and advances 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 to their recoverable amount.

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	5 to 7 years
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 income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) 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 cost less amounts repaid and adjustments for effective fair value hedges.

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 income statement.

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 accounts maturing within three months of the date of acquisition: cash and balances with Central Banks; deposits with banks and balances due to banks.

Repurchase and resale agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for non-trading investments. The liability for amounts received under these agreements is included in other liabilities. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in other assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

Employees' end of service benefits
The Bank provides end of service benefits for its employees. The entitlement to these benefits is 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.

2 SIGNIFICANT ACCOUNTING POLICIES continued

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 income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement.

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 income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts the income statement 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 income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point 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 income statement.

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 including anticipated recoveries from guarantees and collateral discounted at original effective interest rates, is recognised in the income statement.

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 are estimated based on historical patterns of losses in each component, and 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.

2 SIGNIFICANT ACCOUNTING POLICIES continued

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

	2002	*2001*
	AED 000	*AED 000*
Cash on hand	**210,847**	176,707
Balances with Central Banks	**1,087,584**	953,954
	1,298,431	1,130,661

4 FOREIGN CURRENCY BALANCES

Net assets amounting to the Indian Rupee equivalent of AED 53.4 million (2001: AED 49.1 million) held in India are subject to the exchange control regulations of India.

5 TRADING INVESTMENTS

The classification of trading investments was as follows:

	2002	*2001*
	AED 000	*AED 000*
Quoted debt securities	**4,408**	13,522

6 LOANS AND ADVANCES TO CUSTOMERS

	2002 AED 000	2001 AED 000
Overdrafts	**4,210,553**	4,261,631
Personal instalment loans	**2,738,323**	2,627,685
Term loans	**11,470,951**	10,378,174
Credit cards	**107,870**	103,343
Other facilities	**461,226**	436,987
	18,988,923	17,807,820
Less: provision for impaired loans and advances	**(1,588,429)**	(1,452,304)
	17,400,494	16,355,516

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

	2002 AED 000	2001 AED 000
At 1 January	**1,452,304**	1,287,522
Currency translation adjustment	**162**	(610)
Net amounts written off	**(13,163)**	(4,854)
Opening balance adjustment arising from application of IAS 39	**-**	52,871
Transfer from interest in suspense	**38,483**	-
Recoveries	**(16,415)**	(22,248)
Charge for the year	**156,357**	183,417
Interest on impaired loans and advances (note 17)	**(29,299)**	(43,794)
At 31 December	**1,588,429**	1,452,304

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

	2002			2001		
	Domestic AED 000	International AED 000	Total AED 000	Domestic AED 000	International AED 000	Total AED 000
Economic sector						
Agriculture	**414,863**	**-**	**414,863**	635,505	-	635,505
Energy	**1,022,514**	**9,917**	**1,032,431**	769,206	53,258	822,464
Trading	**1,641,948**	**38,913**	**1,680,861**	1,569,203	42,762	1,611,965
Construction	**3,816,558**	**32,433**	**3,848,991**	3,462,961	31,870	3,494,831
Transport	**852,972**	**69,839**	**922,811**	598,244	25,449	623,693
Personal	**7,976,393**	**22,496**	**7,998,889**	8,042,297	23,097	8,065,394
Government	**1,244,653**	**172,195**	**1,416,848**	790,152	133,949	924,101
Others	**1,392,372**	**280,857**	**1,673,229**	1,381,767	248,100	1,629,867
Total	**18,362,273**	**626,650**	**18,988,923**	17,249,335	558,485	17,807,820
Less: provision for impaired loans and advances			**(1,588,429)**			(1,452,304)
Total			**17,400,494**			16,355,516

At 31 December 2002, loans and advances (net of interest in suspense) on which interest is not being accrued or where interest is suspended amounted to AED 3,603 million (2001: AED 3,510 million). As at 31 December 2002, interest in suspense amounted to AED 3,747 million (2001: AED 3,599 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 (2001: AED 1.2 billion).

7 NON TRADING INVESTMENTS

	2002	*2001*
	AED 000	*AED 000*
Available for sale investments		
Quoted investments	**913,464**	1,170,386
Unquoted investments	**75,835**	53,233
	989,299	1,223,619
Held to maturity investments		
Floating Rate Notes	**228,444**	373,420
Securities	**597,480**	594,360
	825,924	967,780
Originated		
Bonds	**1,366,356**	962,803
	3,181,579	3,154,202

The fair value of held to maturity investments and originated investments at 31 December 2002 amount to AED 880,520 thousand (2001: AED 1,014,792 thousand) and AED 1,369,608 thousand (2001: AED 971,765 thousand) respectively.

Included in originated investments is an amount of AED 1,101,900 thousand (2001: AED 918,250 thousand) linked to reference assets as part of credit default swap transactions.

8 OTHER ASSETS

	2002	*2001*
	AED 000	*AED 000*
Interest receivable	**121,087**	133,999
Withholding taxation	**68,640**	40,174
Prepayments	**10,903**	8,295
Positive fair value of derivatives (note 23)	**165**	5,037
Clearing receivables	**86,648**	83,608
Others	**80,638**	35,164
	368,081	306,277

9 PROPERTY AND EQUIPMENT

	Freehold property AED 000	*Leasehold property AED 000*	*Furniture, equipment and vehicles AED 000*	*Total AED 000*
Cost or valuation:				
At 1 January 2002	214,232	9,685	84,834	308,751
Currency translation adjustment	26	-	25	51
Additions during the year	4,436	2,464	9,596	16,496
Cost of disposals	(350)	(1,090)	(2,719)	(4,159)
At 31 December 2002	**218,344**	**11,059**	**91,736**	**321,139**
Depreciation:				
At 1 January 2002	85,511	7,274	70,404	163,189
Currency translation adjustment	1	-	24	25
Provided during the year	9,540	790	7,526	17,856
Disposals	(259)	(1,080)	(2,664)	(4,003)
At 31 December 2002	**94,793**	**6,984**	**75,290**	**177,067**
Net book value:				
At 31 December 2002	**123,551**	**4,075**	**16,446**	**144,072**
At 31 December 2001	128,721	2,411	14,430	145,562

Freehold property includes properties recorded at directors' valuation with a gross carrying value of AED 37 million (2001: AED 37 million). Included in freehold property is an amount of AED 1.3 million (2001: AED 1.3 million) which represents collateral acquired in settlement of loans and advances.

10 DUE TO BANKS

	2002 AED 000	*2001 AED 000*
Current and demand deposits	**98,751**	77,400
Deposits maturing within one year	**2,518,052**	2,196,887
Deposits maturing after one year	**813,890**	858,302
	3,430,693	3,132,589

11 LONG TERM LOAN

A long term interest bearing loan of AED 1,200 million (2001 : 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 21 million (2001 : AED 60 million) which has been charged as an expense for the year (note 18).

12 OTHER LIABILITIES

	2002	2001
	AED 000	*AED 000*
Interest payable	**69,273**	95,313
Employees' end of service benefits	**53,924**	52,862
Accounts payable and sundry creditors	**41,000**	77,554
Income received in advance	**7,568**	8,729
Negative fair value of derivatives (note 23)	**118,047**	92,306
Others	**100,246**	91,549
	390,058	418,313

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

	2002	2001
	AED 000	*AED 000*
Current liability:		
Current year	**1,837**	2,339
Income statement:		
Current year write back (expense)	**1,846**	(9,421)

14 SHARE CAPITAL

		2002	2001
	Authorised	*Issued and fully paid*	
	AED 000	***AED 000***	*AED 000*
Ordinary shares of AED 10 each (AED 100 each in 2001)	1,500,000	**1,250,000**	1,250,000

Abu Dhabi Investment Authority holds 64.796%, AED 809,953,700 (2001 : 64.796% - AED809,953,700) of the issued and fully paid up share capital. The balance is held by U.A.E. institutions and U.A.E. nationals.

In the extraordinary general meeting held on 10 April 2002, the shareholders approved the split of the nominal value of the share from AED 100 to AED 10 and the resulting amendment to the Bank's Articles of Association and the number of shares issued.

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 the 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 2002, the Board of Directors has proposed to pay a cash dividend of 25% amounting to AED 312.5 million (2001 : 25%, amounting to AED 312.5 million) out of the profits for the year subject to the approval of the shareholders at the Annual General Meeting.

17 INTEREST INCOME

	2002 *AED 000*	*2001* *AED 000*
Loans and advances	896,312	1,185,745
Deposits with banks	128,259	211,495
Investment securities	161,750	166,736
Trading securities	368	953
Notional interest on impaired loans and advances (note 6)	29,299	43,794
	1,215,988	1,608,723

18 INTEREST EXPENSE

	2002 *AED 000*	*2001* *AED 000*
Bank deposits	185,738	204,197
Customers' deposits	297,201	572,323
Long term loan (note 11)	21,000	60,000
	503,939	836,520

19 NET TRADING INCOME

	2002 ***AED 000***	*2001* *AED 000*
Foreign exchange	**36,352**	29,828
Trading securities and derivatives	**(2,234)**	733
	34,118	30,561

20 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:

	2002	*2001*
Net profit for the year (AED 000)	**590,337**	615,429
Ordinary shares in issue throughout the year (000's)	**125,000**	125,000
Basic earnings per share (AED) – (2001 restated)	**4.72**	4.92

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

For the purposes of calculating the basic earnings per share of the previous year, the weighted average number of shares subscribed and paid during the previous year has been adjusted by the effect of the share split that took place in 2002 (note 14).

21 CASH AND CASH EQUIVALENTS

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

	2002	*2001*
	AED 000	*AED 000*
Cash and balances with Central Banks	**1,298,431**	1,130,661
Due from banks	**3,123,155**	2,812,328
Due to banks	**(1,534,217)**	(1,448,758)
	2,887,369	2,494,231

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 impaired loans and advances.

The year end balances in respect of related parties included in the balance sheet are as follows:

	2002	*2001*
	AED 000	*AED 000*
Loans and advances to customers	**444,752**	584,097
Customers' deposits	**2,182,004**	2,224,353
Irrevocable commitments and contingencies	**1,323,865**	897,807

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

	2002	*2001*
	AED 000	*AED 000*
Interest and commission income	**8,799**	54,994
Interest expense	**30,327**	66,848

23 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following commitments at 31 December:

	2002	*2001*
	AED 000	*AED 000*
Commitments on behalf of customers:		
Acceptances	**257,981**	231,483
Letters of credit	**1,044,385**	1,093,982
Guarantees	**7,259,114**	7,846,269
Irrevocable commitments to extend credit maturing within one year	**4,357,181**	2,393,981
Commitments for future capital expenditure	**131,260**	4,503
Derivative instruments:		
Forward foreign exchange contracts	**1,009,574**	802,863
Interest rate swaps	**1,360,481**	1,805,093
Options	**-**	45,913
	15,419,976	14,224,087

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. 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.

23 COMMITMENTS AND CONTINGENT LIABILITIES continued

	Notional amounts by term to maturity			
	Total	*Within 3 months*	*Within 3-12months*	*1-5 years*
	AED 000	*AED 000*	*AED 000*	*AED 000*
At 31 December 2002				
Derivatives held for hedging:				
Interest rate swaps	**1,360,481**	**18,365**	**538,292**	**803,824**
Forward foreign exchange contracts	**1,009,574**	**865,708**	**143,866**	**-**
	2,370,055	**884,073**	**682,158**	**803,824**
At 31 December 2001				
Derivatives held for trading:				
Options	45,913	9,183	-	36,730
Interest rate swaps	330,570	-	-	330,570
Derivatives held for hedging:				
Interest rate swaps	1,474,523	18,365	116,286	1,339,872
Forward foreign exchange contracts	802,863	749,816	53,047	-
	2,653,869	777,364	169,333	1,707,172

At 31 December 2002 the positive and negative fair values of these derivatives amounted to AED 165 thousand (2001 : AED 5,037 thousand) and AED 118,047 thousand (2001 : 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.

23 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 contracts 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:

	2002 AED 000 equivalent long (short)	*2001 AED 000 equivalent long (short)*
US Dollar	**1,025,038**	1,178,349
Indian Rupees	**46,646**	31,451
Omani Riyal	**263**	(40)
Pound Sterling	**1,372**	1,650
Euro	**(954)**	(718)
Bahrani Dinar	**166**	417
Saudi Riyal	**(141)**	1,083

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:

	Commercial banking		***Investment banking***		***Total***	
	2002	*2001*	***2002***	*2001*	***2002***	*2001*
	AED 000	*AED 000*	***AED 000***	*AED 000*	***AED 000***	*AED 000*
Operating income	**853,898**	908,251	**70,199**	62,038	**924,097**	970,289
Segment result and profit from operations	**517,077**	563,236	**59,215**	52,362	**576,292**	615,598
Other income	**12,199**	9,252	**-**	-	**12,199**	9,252
Income tax write back (expense) unallocated					**1,846**	(9,421)
Net profit for the year					**590,337**	615,429
Other Information						
Segment assets	**17,959,344**	16,701,315	**9,724,019**	9,891,576	**27,683,363**	26,592,891
Segment liabilities	**13,561,489**	12,587,356	**9,724,019**	9,891,576	**23,285,508**	22,478,932
Equity					**4,397,855**	4,113,959
Total liabilities and equity					**27,683,363**	26,592,891

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. The following table shows the distribution of the Bank's operating income, total assets, total liabilities and capital expenditure by geographical segment.

	Domestic		*International*		*Total*	
	2002	*2001*	***2002***	*2001*	***2002***	*2001*
	AED 000	*AED 000*	***AED 000***	*AED 000*	***AED 000***	*AED 000*
Operating income	**910,797**	940,867	**13,300**	29,422	**924,097**	970,289
Profit before taxation	**586,403**	606,548	**2,088**	18,302	**588,491**	624,850
Income tax write back (expense)	-	-	**1,846**	(9,421)	**1,846**	(9,421)
Net profit for the year	**586,403**	606,548	**3,934**	8,881	**590,337**	615,429
Segment assets	**26,085,196**	25,133,837	**1,598,167**	1,459,054	**27,683,363**	26,592,891
Segment liabilities	**21,750,780**	21,036,675	**1,534,728**	1,442,257	**23,285,508**	22,478,932
Capital expenditure incurred in the year	**15,828**	16,604	**668**	723	**16,496**	17,327

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.

26 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:

	2002			2001		
	Assets AED 000	***Liabilities and equity AED 000***	***Off-balance sheet items AED 000***	*Assets AED 000*	*Liabilities and equity AED 000*	*Off-balance sheet items AED 000*
Geographic region						
Domestic (UAE)	**19,192,842**	**24,474,228**	**8,940,443**	17,827,645	23,997,027	6,637,095
Other GCC countries	**3,259,293**	**556,296**	**706,205**	2,477,038	198,993	944,385
Other Arab countries	**659**	**87,537**	**32,271**	1,709	115,051	23,838
South Africa	**221,043**	**8,916**	**350,789**	610,970	14,376	279,027
India	**1,809,448**	**1,538,964**	**848,004**	1,631,378	1,466,443	695,998
Europe	**669,771**	**278,307**	**3,802,253**	544,117	487,717	4,368,199
USA	**264,026**	**54,190**	**74,597**	143,632	40,935	367,518
Japan	**4,342**	**776**	**168,166**	2,022	852	158,753
Hong Kong	**184,808**	**-**	**-**	184,569	-	264
Singapore	**140,997**	**23**	**1,458**	382,174	-	13,359
South Korea	**1,577,492**	**359**	**375,371**	2,317,054	335	669,957
Rest of the world	**358,642**	**683,767**	**120,419**	470,583	271,162	65,694
Total	**27,683,363**	**27,683,363**	**15,419,976**	26,592,891	26,592,891	14,224,087
Industry sector						
Commercial & business	**8,168,068**	**3,016,251**	**4,662,851**	7,526,129	3,464,079	3,864,265
Personal	**7,469,715**	**9,201,294**	**929,269**	7,574,356	9,031,679	774,006
Public sector	**677,023**	**1,280,456**	**1,171,329**	538,874	808,702	9,484
Government	**4,693,520**	**8,677,600**	**2,188,237**	3,929,537	8,512,451	1,906,447
Banks and financial institutions	**6,675,037**	**5,507,762**	**6,468,290**	7,023,995	4,775,980	7,669,885
Total	**27,683,363**	**27,683,363**	**15,419,976**	26,592,891	26,592,891	14,224,087

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 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 2002 was as follows:

	Effective rate	*Less than 3 months AED 000*	*3 months to less than 6 months AED 000*	*6 months to less than 1 year AED 000*	*1 Year to less than 3 years AED 000*	*Over 3 years AED 000*	*Non-interest bearing items AED 000*	*Total AED 000*
ASSETS								
Cash and balances with Central Banks	-	-	-	-	-	-	1,298,431	1,298,431
Due from banks	1.93	5,135,537	106,058	-	-	-	39,008	5,280,603
Funds under management	1.99	5,695	-	-	-	-	-	5,695
Trading investments	-	-	-	-	-	-	4,408	4,408
Loans and advances to customers	5.39	9,803,181	1,730,070	1,319,918	1,999,351	533,802	2,014,172	17,400,494
Non trading investments	5.22	1,390,734	308,740	442,113	256,528	670,789	112,675	3,181,579
Other assets	-	-	-	-	-	-	368,081	368,081
Property and equipment	-	-	-	-	-	-	144,072	144,072
Total assets		16,335,147	2,144,868	1,762,031	2,255,879	1,204,591	3,980,847	27,683,363
LIABILITIES AND EQUITY								
Due to banks	3.94	2,122,179	332,215	67,282	813,890	-	95,127	3,430,693
Customers' deposits	1.77	13,352,985	895,404	485,152	48,369	10,070	3,470,940	18,262,920
Long term loan	1.75	-	-	-	1,200,000	-	-	1,200,000
Other liabilities	-	-	-	-	-	-	390,058	390,058
Taxation	-	-	-	-	-	-	1,837	1,837
Equity	-	-	-	-	-	-	4,397,855	4,397,855
Total liabilities and equity	-	15,475,164	1,227,619	552,434	2,062,259	10,070	8,355,817	27,683,363
On-balance sheet gap	-	859,983	917,249	1,209,597	193,620	1,194,521	(4,374,970)	-
Off-balance sheet gap	-	681,205	642,546	(519,927)	(763,755)	(40,069)	-	-
Total interest rate sensitivity gap	-	1,541,188	1,559,795	689,670	(570,135)	1,154,452	(4,374,970)	-
Cumulative interest rate sensitivity gap	-	1,541,188	3,100,983	3,790,653	3,220,518	4,374,970	-	-

Included in non-trading investments and due to banks are interest bearing amounts of AED 1,030,582 thousand and AED 971,772 thousand respectively relating to the Bank's overseas branches with effective rates of 10.46% and 9.55% respectively.

27 INTEREST RATE RISK continued

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

	Effective Rate	*Less than 3 months AED 000*	*3 months to less than 6 months AED 000*	*6 months to less than 1 year AED 000*	*1 Year to less than 3 years AED 000*	*Over 3 years AED 000*	*Non-interest bearing items AED 000*	*Total AED 000*
ASSETS								
Cash and balances with Central Banks	-	-	-	-	-	-	1,130,661	1,130,661
Due from 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		16,392,576	2,001,853	829,234	1,644,120	1,907,502	3,817,606	26,592,891
LIABILITIES AND EQUITY								
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	-	13,841,517	2,348,855	655,947	1,243,955	867,570	7,635,047	26,592,891
On-balance sheet gap	-	2,551,059	(347,002)	173,287	400,165	1,039,932	(3,817,441)	-
Off-balance sheet gap	-	833,642	613,334	(107,103)	(683,799)	(656,074)	-	-
Total interest rate sensitivity gap	-	3,384,701	266,332	66,184	(283,634)	383,858	(3,817,441)	-
Cumulative interest rate sensitivity gap	-	3,384,701	3,651,033	3,717,217	3,433,583	3,817,441	-	-

Included in non-trading investments and due to banks are interest bearing amounts of AED 1,006,917 thousand and AED 952,028 thousand respectively relating to the Bank's overseas branches with effective rates of 11.25% and 9.50% respectively.

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.

28 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 2002 was as follows:

	Total AED 000	*Less than 3 months AED 000*	*3 months to less than 6 months AED 000*	*6 months to less than 1 year AED 000*	*1 year to less than 3 years AED 000*	*3 years to less than 5 years AED 000*	*Over 5 years AED 000*
ASSETS							
Cash and balances with Central Banks	**1,298,431**	**1,298,431**	**-**	**-**	**-**	**-**	**-**
Due from banks	**5,280,603**	**5,174,545**	**106,058**	**-**	**-**	**-**	**-**
Funds under management	**5,695**	**5,695**	**-**	**-**	**-**	**-**	**-**
Trading investments	**4,408**	**4,408**	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers	**17,400,494**	**6,712,127**	**1,182,987**	**2,118,609**	**4,169,193**	**1,128,443**	**2,089,135**
Non trading investments	**3,181,579**	**133,225**	**327,149**	**593,486**	**1,098,406**	**1,012,314**	**16,999**
Other assets	**368,081**	**260,682**	**75,067**	**28,504**	**3,828**	**-**	**-**
Property and equipment	**144,072**	**-**	**-**	**-**	**-**	**-**	**144,072**
Total assets	**27,683,363**	**13,589,113**	**1,691,261**	**2,740,599**	**5,271,427**	**2,140,757**	**2,250,206**
LIABILITIES AND EQUITY							
Due to banks	**3,430,693**	**2,217,306**	**332,215**	**67,282**	**813,890**	**-**	**-**
Customers' deposits	**18,262,920**	**16,823,925**	**895,404**	**485,152**	**48,369**	**10,070**	**-**
Long term loan	**1,200,000**	**-**	**-**	**-**	**-**	**-**	**1,200,000**
Other liabilities	**390,058**	**201,072**	**14,553**	**24,672**	**95,749**	**76**	**53,936**
Taxation	**1,837**	**1,837**	**-**	**-**	**-**	**-**	**-**
Equity	**4,397,855**	**312,500**	**-**	**-**	**-**	**-**	**4,085,355**
Total liabilities and equity	**27,683,363**	**19,556,640**	**1,242,172**	**577,106**	**958,008**	**10,146**	**5,339,291**

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.

28 LIQUIDITY RISK continued

The maturity profile of the assets and liabilities at 31 December 2001 was as follows:

	Total AED 000	*Less than 3 months AED 000*	*3 months to less than 6 months AED 000*	*6 months to less than 1 year AED 000*	*1 year to less than 3 years AED 000*	*3 years to less than 5 years AED 000*	*Over 5 years AED 000*
ASSETS							
Cash and balances with Central Banks	1,130,661	1,130,661	-	-	-	-	-
Due from 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	5,924,990	1,483,236	1,697,659	2,492,218	2,692,149	2,065,264
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	145,562	-	-	-	-	-	145,562
Total assets	26,592,891	12,470,156	2,174,594	2,048,012	4,198,771	3,473,030	2,228,328
LIABILITIES AND EQUITY							
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	4,113,959	312,500	-	-	-	-	3,801,459
Total liabilities and equity	26,592,891	17,473,021	2,374,799	685,473	79,203	926,074	5,054,321

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.

29 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.

30 CAPITAL ADEQUACY

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

	2002	*2001*
	AED 000	*AED 000*
Total capital base	**4,085,355**	3,801,459
Risk weighted assets:		
Balance sheet items	**17,300,275**	17,245,669
Off-balance sheet exposures	**3,419,873**	3,376,153
Total risk weighted assets	**20,720,148**	20,621,822
Total assets ratio (%)	**19.72**	18.43