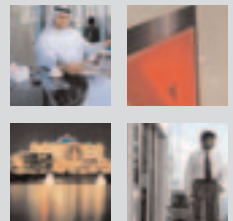


ADCB ANNUAL REPORT 2004



Reflecting on the year that has passed, 2004 marks a significant step in the fortunes of ADCB. A rebuilding of the Bank's foundations - through investment in people, technology and infrastructure - that has resulted in a very strong performance. With an eye on the future, ADCB will continue this progress with ground-breaking projects, customer-friendly products and services, and a world-class branch network. The new ADCB will undoubtedly be a major force in UAE banking.

FINANCIAL HIGHLIGHTS

As at December 31	2004	2003
Total Assets	10,453	7,828
Loans and Advances, net	7,060	5,247
Due from Banks	2,065	1,261
Equity (excl. proposed dividend)	1,265	1,135
Due to Banks	864	916
Deposits from Customers	8,116	5,273
Long-Term Loan	-	327
Capital/Assets Ratio	13%	16%
Capital/Loans Ratio	19%	23%
<hr/>		
Operational Expenses	93	68
Net Profit	218	110

Please note all figures in USD millions





◊ THE REFLECTION





CONTENTS



The Late H.H. Sh. Zayed Bin Sultan Al Nahyan
(God Rest His Soul in Peace)



H.H. Sh. Khalifa Bin Zayed Al Nahyan
President of the UAE



H.H. Sh. Mohammad Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi



Saeed Mubarak Al Hajeri
Chairman of the Board
Chairman, Executive Committee
Strategy Committee Member



Rashid Humaid Al Mazroui
Board Member
Chairman, Audit Committee



Abdulla Khalil Al Mutawa
Board Member
Chairman, Strategy Committee
Executive Committee Member



Mubarak Mattar Al Humairi

Board Member



Mohammad Darwish Mohammad Al Khouri

Board Member
Strategy Committee Member



Hamad Saeed Mohammad Al Badi

Board Member
Chairman, Recoveries Committee
Chairman, New Headquarters
Building Committee
Strategy Committee Member
Audit Committee Member



Mohammad Sultan Ghanoom Al Hameli

Board Member
Executive Committee Member
Strategy Committee Member



Aamer Abdul Jalil Al Fahim

Board Member
Audit Committee Member



Jean Paul Villain

Board Member
Audit Committee Member
Strategy Committee Member



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ADDA

CHAIRMAN'S REPORT
CHAIRMAN'S REPORT

We are able to reflect upon a year which represents a major milestone in the journey we embarked upon in 2003 – that of rebuilding the foundations of the Bank and creating a stable platform for future growth.

This platform made it possible for us to launch several initiatives which together have resulted in a significantly improved performance. In 2004, net profit rose to AED 801 million, compared to AED 405 million in 2003, a 98% increase. Total assets rose to AED 38,393 million and loans and advances to AED 25,931 million, increases of 34% and 35% respectively.

We have seen a dramatic improvement in the non-performing loans portfolio, which we have reduced from AED 7.7 billion to AED 2.1 billion. This figure represents 5% of performing loans, compared to 18% a year ago. In the main, we have managed this through an aggressive programme of recovering problem loans, supervised by a Board level committee.

The Bank's strategic plan was spear-headed by the launch of a new corporate identity – 'ADCB' – in April 2004. The tangible elements of the plan saw us invest in the human resources and information technology required to improve our customer service and broaden our product offering. This investment has enabled us to transform our branches into a network of sales and service outlets, introduce new products and services, and open a new contact centre.

I am confident that the steps we have taken in 2004 mean ADCB will continue improving its performance in 2005, and so achieve the goals we have set.

Now well into 2005 and our continuing transformation, we face many challenges ahead. I know I can depend on the hard work and dedication of all at ADCB to ensure we make good progress on our journey of rebuilding the Bank and, ultimately, helping ensure and sustain our success.

I would like to take this opportunity to extend my sincere thanks to my colleagues on the Board, senior management and staff, for their commitment and perseverance during 2004. Finally I wish to thank our shareholders and clients for their loyalty, and unceasing belief in ADCB.



H.E. Saeed Mubarak Rashid Al Hajeri
Chairman of the Board



CEO'S REPORT
CEO'S BEPOBI

Apr_04 Introduced a new corporate identity

Jun_04 Launched personalised loans tailored specifically for UAE Nationals, UAE National Employed Women and all Expatriates



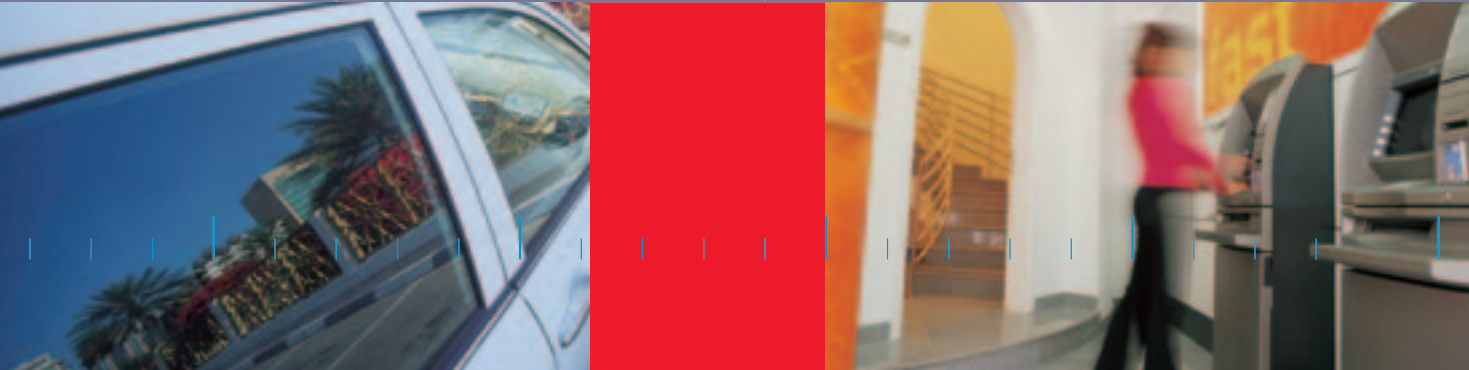
OUR VISION
YOUR FUTURE

Looking back, our aim for 2004 was to complete the restructuring process we started in 2003, improve our competitiveness and gain momentum in our profitability. In this way, we believed ADCB would regain its rightful position amongst the top banks in the UAE.

The improved year-on-year results for 2004 show that we have made significant progress toward achieving this aim. ADCB has recorded its highest ever net profit, AED 801 million.

Jul_04: Achieved record first half year results for 2004, increasing first half profit by over 11%

Jul_04: Launched InterAct, the customer communication channel for customer feedback through the toll-free number and website



We have achieved this by focusing on acquiring new customers, while consolidating existing relationships and, rather than simply selling stand-alone products, by cross-selling products that we have blended to provide financial solutions for our customers.

“In effect, we separated out Commercial Banking to allow us to develop a more focused approach to this important area of our business.”

On the costs side, we made significant investments in branding and distribution channels, resulting in a well balanced performance across all business segments, with business growth firmly focused on the UAE. We materially improved staff productivity with substantial improvements in assets, liabilities and profits per staff member.

Corporate Banking

Our Corporate Banking Group created a new Investment Banking Division, which will cater for specialised customer requirements. We separated out Commercial Banking to allow us to develop a more focused approach to small and medium size businesses. To support these initiatives, we also introduced improved sales and customer acquisition processes. During the year we were successful in being lead and co-lead managers in a significant number of large high profile deals, closing commitments of over AED 5 billion.

Retail Banking

With the transformation of branches into sales and service outlets during 2004, we created new central retail product groups to service deposits, loans and credit cards, as well as to manage branches. We also introduced improvements to many deposit products such as current accounts, saving accounts and fixed deposits. The upgrade and refurbishment programme for our branch network also started, with the assistance of a leading global design consultant firm.

Aug_04 Introduced 24-hour banking through a new state-of-the-art Contact Centre

Aug_04 Launched ADCB Family Protector Insurance



This year, we were able to improve our retail loan propositions, introducing more competitive and customer-friendly features. We also supported all products with strong promotions in line with the new ADCB brand, and enhanced the capacity and customer service features of our Contact Centre.

Private Banking and Wealth Management

Creating a Wealth Management team has enabled us to consolidate our high net worth customers within a single delivery channel, where we can ensure we meet our objective of providing a focused, efficient and highly personalised service. To this end, Wealth Management has introduced customised solutions for the unique requirements of its clients, with access to diverse products to fit any asset allocation objective. A number of third party investment products have been launched such as mutual funds, hedge funds and structured notes, coupled with the launch of bancassurance through multiple delivery channels.

Operations and Technology

We have an ongoing commitment to upgrade our IT. We implemented a new operational risk model and, at the end of December 2004, the new core banking computer system went 'live', with all the required interfaces. We have made significant improvements in processes and controls, coupled with technology and networking improvements in all key areas. We have considerably enhanced IT and data security.

Financial Results

Loans and Advances increased to AED 25.9 billion from AED 19.2 billion in 2003 and Customer Deposits rose by 54%, to AED 29.8 billion from AED 19.3 billion in 2003. This growth is reflected in improved balance sheet figures with Total Assets of AED 38.4 billion, up from AED 28.8 billion in 2003, an increase of 34%. This has in turn resulted in a higher return on Average Assets of 2.38%, up 65% on 2003, and better capital utilisation with our capital ratio at 16.4%.

Sept_04 Formed a strategic alliance with Lebanese Canadian Bank to provide loans to Lebanese Expatriates

Sept_04 Became the first bank to sign an agreement to establish a new business centre in the Industrial City of Abu Dhabi



The Bank's non-performing loan (NPL) portfolio position has improved significantly, through a combination of the indemnity resolution, write-offs and recoveries – the latter due to significant and effective Board involvement. As a result of these activities, NPLs to gross loans reduced to 5%, with gross NPLs now at AED 2.1 billion, compared to AED 7.7 billion in 2003. There has also been significant improvement in the Bank's provisions coverage of NPLs, all this culminating in a net profit of AED 801 million, the highest in the Bank's history.

Despite market pressure on margins, Net Interest Income is up to AED 847 million and there has been aggressive growth in fee income to AED 247 million, up from AED 156 million in 2003. As a result, there has been a turn around in the ratio of non-interest income to total income, from 22.5% in 2003 to 26.8% in 2004.

The upgrades in human capital, technology and quality, coupled with aggressive cost management, have seen a modest growth in the Cost to Income ratio at 29.5%, from 26.4% in 2003.

The Bank's share price has increased from AED 59 in January 2004 to AED 138 in December 2004, and to AED 160 in March 2005. This has seen the market capitalisation increase by AED 10 billion, from AED 7.3 billion in December 2003 to AED 17.3 billion.

The cash dividend of 25%, in addition to a 20% bonus issue, is the highest payout to shareholders since the Bank was established.

ADCB's Community and Values Contributions

As part of our social responsibilities to the communities we serve, ADCB sponsors several sports, social, cultural and charitable activities. The Bank is the main sponsor of the Al Ain Sports and Cultural Club. We also took a prominent role in the Environment and Energy Exhibition, and made contributions to numerous educational and cultural events.

Sept_04 Launched ALICO & Zurich Life Insurance Regular Savings Plan

Oct_04: Financed \$40 million project for Horizon Djibouti Terminals Ltd.

Oct_04: Launched first kiosk in Abu Dhabi Mall



2005 Priorities

Our aim for 2005 is to grow profitably by achieving a better market share. The basis for this growth will be developing our staff, and further enhancing the service we provide our customers.

Nov_04 : Launched Al Dar Prospective IPO

Dec_04 : Launched the 'ADCB Smart Debit Card' – a first for the Middle East



Our aim for 2005 is to grow profitably by achieving a better market share. The basis for this growth will be by further enhancing the service we provide our customers and developing our staff.

Our major strategic initiatives for 2005 are to enhance our Investment Banking and Treasury Derivatives capabilities.

We plan to create further dedicated Wealth Management centres and an ICAD Banking Unit to support the development of the UAE industrial base. We also set up ADCB's first Mutual Fund – Al Nokhitha – and a full service share broker. We intend to launch new products in Cash Management and our Excellency brand for Wealth Management customers. We have seven new branches or kiosk locations planned, as well as ATM upgrades.

Further plans involve the organisation of the Financial Institutions Division and the upgrade of the Commercial Banking Division to improve service and the products offered to small and medium size enterprises. We will be launching retail mortgage and auto loan products, and direct sales will provide a new customer acquisition channel. Corporate and Retail customers will benefit from our introduction of Internet banking.

We have achieved much in 2004, becoming a leaner, stronger and more profitable bank. It is imperative we maintain this momentum, and the plans laid out here will help us do so. By continuing to deliver quality service and products, we will meet the targets we have set ourselves for 2005.

Eirvin Knox
Chief Executive Officer

REPORTS AND FINANCIAL STATEMENTS بەرۆبەرس و ئىنقىساف سىتەمەنىس

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, UAE

We have audited the accompanying balance sheet of **Abu Dhabi Commercial Bank P.J.S.C.** – Public Joint Stock Company (the Bank) as of December 31, 2004, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended as set out in pages 23 to 58. 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 December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or on the results of its operations for the year.

Deloitte & Touche



Ahmad Nimer
Registration Number 380
January 19, 2005

BALANCE SHEET

AS AT DECEMBER 31, 2004

	Notes	2004 AED'000	2003 AED'000	2004 US\$'000
ASSETS				
Cash and balances with Central Banks	3	1,679,832	1,314,840	457,346
Deposits and balances due from banks	4	7,584,197	4,633,181	2,064,851
Trading investments	5	297,011	-	80,863
Loans and advances, net	6	25,931,300	19,270,500	7,059,978
Non trading investments	7	2,236,077	2,956,703	608,788
Other assets	8	463,807	430,999	126,274
Property, plant and equipment, net	9	201,119	144,971	54,756
Total assets		38,393,343	28,751,194	10,452,856
LIABILITIES				
Due to banks	10	3,172,135	3,363,606	863,636
Customers' deposits		29,811,564	19,368,212	8,116,407
Long term loan	11	-	1,200,000	-
Other liabilities	12	449,323	339,826	122,331
Total liabilities		33,433,022	24,271,644	9,102,374
SHAREHOLDERS' EQUITY				
Share capital	14	1,250,000	1,250,000	340,321
Statutory and legal reserves	15	1,184,397	1,024,279	322,460
General and contingency reserves	15	1,925,000	1,850,000	524,095
Proposed bonus shares issue	16	250,000	-	68,064
Proposed dividends	16	312,500	312,500	85,080
Cumulative change in fair values		21,258	29,599	5,788
Retained earnings		17,166	13,172	4,674
Total shareholders' equity		4,960,321	4,479,550	1,350,482
Total liabilities and shareholders' equity		38,393,343	28,751,194	10,452,856
Commitments and contingent liabilities	23	16,883,603	12,454,140	4,596,679



Saeed Al Hajeri
Chairman



Eirvin Knox
Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	Notes	2004 AED'000	2003 AED'000	2004 US\$'000
Interest income	17	1,310,785	1,061,454	356,871
Interest expense	18	(463,810)	(333,374)	(126,276)
Net interest income		846,975	728,080	230,595
Net fee and commission income		246,939	155,599	67,231
Net trading income	19	53,341	42,450	14,523
Dividend income		1,625	1,244	442
(Loss)/gain on sale of non trading investments		(606)	4,509	(165)
Other operating income		9,823	7,313	2,674
Operating income		1,158,097	939,195	315,300
Staff expenses		(222,511)	(175,858)	(60,580)
Depreciation	9	(20,323)	(18,377)	(5,533)
Other operating expenses		(98,791)	(54,134)	(26,896)
Provision for doubtful loans and advances, net of recoveries	6	(19,759)	(283,305)	(5,380)
Operating expenses		(361,384)	(531,674)	(98,389)
Profit from operations, before taxation		796,713	407,521	216,911
Overseas income tax write back/(expense)	13	3,881	(2,496)	1,057
Net profit for the year		800,594	405,025	217,968
Basic earnings per share (AED)	20	6.40	3.24	1.74

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed bonus shares issue AED '000	Proposed dividends AED'000	Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at January 1, 2003		1,250,000	494,030	449,243	1,700,000	150,000	-	312,500	39,200	2,882	4,397,855
Dividends paid	16	-	-	-	-	-	-	(312,500)	-	-	(312,500)
Net profit for the year 2003		-	-	-	-	-	-	-	-	405,025	405,025
Realised gain on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	-	(2,236)	(2,236)
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	-	-	2,857	2,857
Transfer to statutory reserve	15	-	40,503	-	-	-	-	-	-	(40,503)	-
Transfer to legal reserve	15	-	-	40,503	-	-	-	-	-	(40,503)	-
Transfer to general reserve	15	-	-	-	-	-	-	-	-	-	-
Net movement in cumulative change in fair values		-	-	-	-	-	-	-	(9,601)	-	(9,601)
Proposed dividends	16	-	-	-	-	-	-	312,500	-	(312,500)	-
Board of directors' remuneration		-	-	-	-	-	-	-	-	(1,850)	(1,850)
Balance at January 1, 2004		1,250,000	534,533	489,746	1,700,000	150,000	-	312,500	29,599	13,172	4,479,550
Dividends paid	16	-	-	-	-	-	-	(312,500)	-	-	(312,500)
Net profit for the year 2004		-	-	-	-	-	-	-	-	800,594	800,594
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	-	520	520
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	-	-	2,348	2,348
Transfer to statutory reserve	15	-	80,059	-	-	-	-	-	-	(80,059)	-
Transfer to legal reserve	15	-	-	80,059	-	-	-	-	-	(80,059)	-
Transfer to general reserve	15	-	-	-	75,000	-	-	-	-	(75,000)	-
Net movement in cumulative change in fair values		-	-	-	-	-	-	-	(8,341)	-	(8,341)
Proposed cash dividends	16	-	-	-	-	-	-	312,500	-	(312,500)	-
Proposed bonus issue of shares	16	-	-	-	-	-	250,000	-	-	(250,000)	-
Board of directors' remuneration		-	-	-	-	-	-	-	-	(1,850)	(1,850)
Balance at December 31, 2004		1,250,000	614,592	569,805	1,775,000	150,000	250,000	312,500	21,258	17,166	4,960,321

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The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Notes	2004 AED'000	2003 AED'000	2004 US\$'000
OPERATING ACTIVITIES				
Net profit before taxation		796,713	407,521	216,911
Adjustments for:				
Currency translation		2,117	2,535	576
Depreciation of property, plant and equipment		20,323	18,377	5,533
Profit on sale of property, plant and equipment		(591)	(199)	(161)
Provision for doubtful loans and advances		133,074	305,762	36,230
Recovery of provision for doubtful loans and advances		(113,315)	(22,457)	(30,850)
(Loss)/gain on sale of non trading investments		606	(4,509)	165
Operating profit before changes in operating assets and liabilities		838,927	707,030	228,404
Changes in operating assets and liabilities				
Increase in due from banks		(893,978)	(366,952)	(243,392)
Increase in loans and advances to customers		(7,163,559)	(2,153,311)	(1,950,329)
(Increase)/decrease in trading investments		(297,011)	4,408	(80,863)
Increase in other assets		(36,222)	(74,789)	(9,861)
Increase in due to banks		2,770	168,026	754
Increase in customers' deposits		9,726,352	1,105,292	2,648,067
Increase/(decrease) in other liabilities		111,849	(52,585)	30,451
Cash from/(used in) operations		2,289,128	(662,881)	623,231
Directors' remuneration paid		(1,850)	(1,850)	(504)
Overseas taxation write back		4,943	9,891	1,345
Net cash from/(used in) operations		2,292,221	(654,840)	624,072
INVESTING ACTIVITIES				
Purchase of non-trading investments		(717,528)	(865,892)	(195,352)
Proceeds from sale of non-trading investments		1,429,727	1,083,440	389,253
Purchase of property, plant and equipment		(76,254)	(19,720)	(20,761)
Proceeds from sale of property, plant and equipment		605	965	165
Net cash from investing activities		636,550	198,793	173,305
FINANCING ACTIVITIES				
Dividends paid		(312,500)	(312,500)	(85,080)
Cash used in financing activities		(312,500)	(312,500)	(85,080)
Increase/(decrease) in cash and cash equivalents		2,616,271	(768,547)	712,297
Cash and cash equivalents at beginning of the year		2,124,517	2,893,064	578,415
Cash and cash equivalents at the end of the year	21	4,740,788	2,124,517	1,290,712

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

1 Activities

Abu Dhabi Commercial Bank P.J.S.C. (the Bank) is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates. 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 July 1, 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 1,366 employees as of December 31, 2004 (2003: 1,546 employees).

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

The Bank is registered as a public joint stock company in accordance with the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended).

The financial statements of the Bank are prepared in United Arab Emirates Dirhams (AED) since that is the currency in which the majority of the Bank's transactions are denominated. The US Dollar (US\$) amounts are presented for the convenience of the reader.

2 Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of the Laws of the UAE.

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention except for certain financial instruments which are carried at fair value. In addition, as more fully explained 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 with the resultant adjustment taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Investments

Trading investments

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

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale
- Originated loans

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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 designated as held to maturity 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 and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value of investments which are not part of an effective hedging relationship, 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 loans

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Loans and advances

Loans and advances are stated at cost less any amounts written off and provision for doubtful accounts. 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 with the resultant adjustment recognised in the income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Property, plant and equipment

Property, plant and equipment, including land, acquired as at July 1, 1985, are reported at the Directors' determination of net realisable value at the date of acquisition. Property, plant and equipment purchased subsequent to July 1, 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 charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

Freehold properties	15 to 25 years
Leasehold properties	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the income statement.

Capital work in progress

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the Bank's policies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

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 are 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

Provision is made for current and deferred taxes arising from operating results of overseas branches in accordance with the fiscal regulations of the countries in which the Bank operates.

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 and expense recognition

Interest income and expense and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally recognised over the period of the loan or commitment. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Foreign currencies

Transactions in currencies other than AED are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet are revalued at the rates prevailing on that date. Profits and losses arising on exchange are included in the income statement.

The assets and liabilities of the Bank's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Bank's retained earning. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Central Banks, deposits with banks which mature within three months of the date of placement, net of balances due to banks maturing within three months from the date of taking.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to be repurchased 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 for end of service benefits for its Expatriate employees. The entitlement to these benefits is based upon the individual employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for UAE National citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Derivative financial instruments

The Bank enters into derivative instruments including futures, forwards, swaps and options in the foreign exchange and capital markets 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. Derivatives are stated at cost and are subsequently re-measured at fair value. 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. All foreign exchange contracts are marked to market and the resultant net gains and net losses are recognised in the income statement.

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

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

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.

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 cash flows hedging instrument that was recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gains or losses recognised in equity are transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Impairment and uncollectability of financial assets

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

The provision for doubtful 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 reflect the current economic climate in which the borrowers operate.

Trade and settlement date accounting

The "regular way" purchase and sales of financial assets are recognised on the settlement date basis, i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the balance sheet date is recognised in the income statement for assets classified as held for trading and in the statement of changes in equity for assets classified as available for sale.

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 or the underlying net asset base of the investment.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

2 Summary of significant accounting policies (continued)

Offsetting of financial assets and liabilities

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

3 Cash and balances with Central Banks

	2004 AED'000	2003 AED'000
Cash on hand	279,174	169,001
Balances with Central Banks	1,400,658	1,145,839
	1,679,832	1,314,840

4 Deposits and balances due from banks

	2004 AED'000	2003 AED'000
Current and demand deposits	112,938	46,756
Bills discounted	216,533	-
Placements	4,901,021	4,277,435
Syndicated loans	2,353,705	308,990
	7,584,197	4,633,181

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

5 Trading investments

	2004 AED'000	2003 AED'000
Fair value	297,011	-

Trading investments represent investments in securities that present the Bank with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on valuations provided by fund managers.

6 Loans and advances, net

	2004 AED'000	2003 AED'000
Overdrafts	7,242,935	5,756,001
Personal instalment loans	3,458,505	3,045,608
Term loans	15,375,214	11,653,593
Credit cards	144,123	118,657
Other facilities	503,577	462,863
	26,724,354	21,036,722
Less: provision for doubtful loans and advances	(793,054)	(1,766,222)
	25,931,300	19,270,500

Loans and advances are stated net of provision for non-recovery. The movement in the provision during the year was as follows:

	2004 AED'000	2003 AED'000
At January 1	1,766,222	1,588,429
Currency translation adjustment	1,142	1,210
Net amounts written off	(948,389)	(52,811)
Recoveries	(113,315)	(22,457)
Charge for the year	133,074	305,762
Interest on doubtful loans and advances	(45,680)	(53,911)
At December 31	793,054	1,766,222

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

6 Loans and advances, net (continued)

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

	2004			2003		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Economic sector						
Agriculture	53,109	-	53,109	177,018	-	177,018
Energy	2,127,712	37,157	2,164,869	1,512,703	-	1,512,703
Trading	2,180,419	45,480	2,225,899	1,630,117	47,009	1,677,126
Construction	2,096,616	61,784	2,158,400	3,288,847	37,299	3,326,146
Transport	625,372	23,045	648,417	913,503	62,119	975,622
Personal	10,735,920	39,277	10,775,197	8,303,607	26,637	8,330,244
Government	5,660,237	65,589	5,725,826	2,947,759	157,295	3,105,054
Financial Institution	377,299	40,880	418,179	153,784	23,864	177,648
Manufacture	673,062	232,027	905,089	609,694	100,973	710,667
Others	1,416,535	232,834	1,649,369	882,042	162,452	1,044,494
Total	25,946,281	778,073	26,724,354	20,419,074	617,648	21,036,722
Less: provision for doubtful loans and advances			(793,054)			(1,766,222)
Total			25,931,300			19,270,500

As at December 31, 2004, gross non performing loans and advances on which interest is not being accrued or where interest is suspended amounting to AED 2,086 million (2003: AED 7,698 million). Included in gross non performing loans and advances is interest in suspense amounting to AED 702 million (2003: AED 3,917 million).

During the year, the Bank and the Government of Abu Dhabi ("the Government") entered in to an agreement where the Government acquired AED 1,200 million of non-performing loans that were previously indemnified by the Government through a guarantee in the amount of AED 1,200 million.

In exchange for the passing of direct credit risk from the Bank to the Government, the Bank received an immediate settlement of AED 483 million. Effective from January 1, 2005, the Bank is entitled to request, on an annual basis, a repayment of the proceeds due from the sale of the loans and advances equivalent to the annual interest payable by the Bank on a Government deposit of AED 717 million (note 11).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

7 Non trading investments

	2004 AED'000	2003 AED'000
Available for sale investments		
Quoted investments	480,028	635,384
Unquoted investments	158,835	88,729
	638,863	724,113
Held to maturity		
Floating rate notes	100,582	246,500
Fixed rate notes	588,000	629,460
	688,582	875,960
Originated		
Bonds	908,632	1,356,630
	2,236,077	2,956,703

The fair value of held to maturity and originated investments at December 31, 2004 amounted to AED 727,566 thousand (2003: AED 957,361 thousand) and AED 911,681 thousand (2003: AED 1,419,757 thousand), respectively.

Included in originated investments is an amount of AED 495,855 thousand (2003: AED 973,345 thousand) linked to reference assets as part of credit default swap transactions.

8 Other assets

	2004 AED'000	2003 AED'000
Interest receivable	160,542	96,810
Withholding taxation	57,041	60,475
Prepayments	22,281	12,848
Positive fair value of derivative (note 24)	-	636
Clearing receivables	149,816	103,941
Others	74,127	156,289
	463,807	430,999

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

9 Property, plant and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation					
At January 1 2004	196,818	12,863	100,112	6,536	316,329
Exchange difference	217	3	225	-	445
Additions during the year	2,426	1,037	8,908	63,883	76,254
Transfers	1,046	-	3,748	(4,794)	-
Disposals	(10)	-	(3,381)	-	(3,391)
At December 31, 2004	200,497	13,903	109,612	65,625	389,637
Depreciation					
At January 1 2004	83,844	8,368	79,146	-	171,358
Exchange difference	16	-	198	-	214
Charge during the year	8,863	1,928	9,532	-	20,323
Disposals	(11)	(229)	(3,137)	-	(3,377)
At December 31, 2004	92,712	10,067	85,739	-	188,518
Net book value					
At December 31, 2004	107,785	3,836	23,873	65,625	201,119
At December 31, 2003	112,974	4,495	20,966	6,536	144,971

Freehold property includes properties recorded at Directors' valuation with a gross carrying value of AED 19 million (2003: AED 19 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

10 Due to banks

	2004 AED'000	2003 AED'000
Current and demand deposits	184,844	88,623
Deposits maturing within one year	1,584,548	1,984,115
Deposits maturing after one year	1,402,743	1,290,868
	3,172,135	3,363,606

11 Long term loan

During the year, the Bank entered into a new agreement with the Government of Abu Dhabi whereby AED 483 million of the original long-term loan was repaid and the remaining balance was converted to a customer deposit. This represents a non-cash transaction during the year (note 6). Interest is payable annually to the Government of Abu Dhabi and such interest for the year amounted to AED 12 million (2003: AED 15 million) carrying an effective interest rate of 1.67% (2003: 1.25%).

12 Other liabilities

	2004 AED'000	2003 AED'000
Interest payable	128,598	74,459
Employees' end of service benefits	52,273	61,519
Accounts payable and other creditors	16,224	19,761
Deferred income	35,809	12,330
Negative fair value of derivatives (note 24)	54,087	65,728
Others	162,332	106,029
	449,323	339,826

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

13 Taxation

Taxation resulting from Indian branch operations is calculated as per taxation law applicable in India.

14 Share capital

	Authorised AED'000	2004 Issued and fully paid AED'000	2003 AED'000
Ordinary shares of AED 10 each	1,500,000	1,250,000	1,250,000

Abu Dhabi Investment Authority holds 64.796% (2003: 64.796%) of the issued and fully paid up share capital. The balance is held by UAE institutions and UAE Nationals.

In the extraordinary general meeting held on April 10, 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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

15 Reserves (continued)

Legal reserve

In accordance with the UAE Federal 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 is transferred to the legal 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 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 December 31, 2004, the Board of Directors has proposed to pay cash dividends of 25% of the issued share capital amounting to AED 312.5 million (2003: 25% of the issued share capital amounting to AED 312.5 million) in addition to a 20% bonus issue of shares amounting to AED 250 million (2003: Nil) out of the profits for the year subject to the approval of the shareholders at the Annual General Meeting.

17 Interest income

	2004 AED'000	2003 AED'000
Loans and advances	995,365	781,233
Deposits with banks	127,843	66,683
Investment securities	139,797	156,021
Interest on doubtful loans and advances	45,680	53,911
Others	2,100	3,606
	1,310,785	1,061,454

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

18 Interest expense

	2004 AED'000	2003 AED'000
Bank deposits	128,673	125,330
Customers' deposits	323,137	193,044
Long term loan (note 11)	12,000	15,000
	463,810	333,374

19 Net trading income

	2004 AED'000	2003 AED'000
Foreign exchange	50,170	41,025
Trading securities	3,171	1,425
	53,341	42,450

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:

	2004	2003
Net profit for the year (AED'000)	800,594	405,025
Ordinary shares in issue throughout the year (000's)	125,000	125,000
Basic earnings per share (AED)	6.40	3.24

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

21 Cash and cash equivalents

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

	2004 AED'000	2003 AED'000
Cash and balances with Central Banks	1,679,832	1,314,840
Due from banks	7,584,197	4,633,181
Due to banks	(3,172,135)	(3,363,606)
	6,091,894	2,584,415
Less: Due from banks - original maturity more than 3 months	(3,418,378)	(2,524,400)
Add: Due to banks - original maturity more than 3 months	2,067,272	2,064,502
	4,740,788	2,124,517

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.

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

	2004 AED'000	2003 AED'000
Loans and advances to customers	4,983,976	1,552,704
Customers' deposits	7,010,417	2,809,149
Irrevocable commitments and contingencies	32,671	231,088

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

22 Related party transactions (continued)

Significant transactions with related parties during the year are as follows:

	2004	2003
	AED'000	AED'000
Interest and commission income	67,718	8,119
Interest expense	22,712	22,992

23 Commitments and contingent liabilities

The Bank has the following commitments and contingent liabilities at December 31

	2004	2003
	AED'000	AED'000
Acceptances	202,932	186,040
Letters of credit	1,258,137	1,153,741
Guarantees	8,764,609	7,300,173
Irrevocable commitments to extend credit	6,516,021	3,622,195
Commitments for future capital expenditure	115,964	157,405
Commitment to invest in non-trading investments	25,940	34,586
	16,883,603	12,454,140

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

24 Derivative financial instruments

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 on page 46 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

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

24 Derivative financial instruments (continued)

	Total AED'000	Notional amounts by term to maturity		
		Within 3 months AED'000	Within 3-12 months AED'000	1-5 years AED'000
At December 31, 2004				
Derivatives held for hedging				
Interest rate swaps	1,685,287	11,019	943,503	730,765
Forward foreign exchange contracts	2,326,594	1,906,340	414,643	5,611
	4,011,881	1,917,359	1,358,146	736,376

At December 31, 2003

Derivatives held for hedging				
Interest rate swaps	1,410,482	-	110,190	1,300,292
Forward foreign exchange contracts	795,627	640,780	154,847	-
	2,206,109	640,780	265,037	1,300,292

At December 31, 2004 the positive and negative fair values of these derivatives amounted to NIL (2003: AED 636 thousand) and AED 54,087 thousand (2003: AED 65,728 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 institutions 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

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

24 Derivative financial instruments (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:

	2004 AED'000 equivalent long/(short)	2003 AED'000 equivalent long/(short)
US Dollar	1,628,471	464,100
Indian Rupee	47,506	97,180
Omani Riyal	2,525	2,449
Pound Sterling	1,567	(1,260)
Euro	5,892	(1,142)
Bahraini Dinar	308	627
Saudi Riyal	1,133	1,257
Japanese Yen	1,091	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

25 Segmental information

Primary segment information

For operating purposes, the Bank is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposit and current accounts for the Bank's customers, and (ii) 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	
	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000
Operating income	1,133,217	867,267	24,880	71,928	1,158,097	939,195
Segment result and profit from operations	779,009	379,020	17,704	28,501	796,713	407,521
Income tax write back/ (expense) unallocated					3,881	(2,496)
Net profit for the year					800,594	405,025
Other information						
Segment assets	24,679,184	18,873,513	13,714,159	9,877,681	38,393,343	28,751,194
Segment liabilities	19,718,863	14,393,963	13,714,159	9,877,681	33,433,022	24,271,644
Equity					4,960,321	4,479,550
Total liabilities and equity					38,393,343	28,751,194

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

25 Segmental information (continued)

Secondary segment information

Although the Bank is organised primarily into business segments, the Bank operates in two geographic markets. The United Arab Emirates, which is designated as Domestic and represents the operations of the Bank that originate from the UAE branches; and International, which represents the operations of the Bank that 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	
	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000
Operating income	1,143,819	918,749	14,278	20,446	1,158,097	939,195
Profit before taxation	796,216	403,851	497	3,670	796,713	407,521
Income tax write back/ (expense)	-	-	3,881	(2,496)	3,881	(2,496)
Net profit for the year	796,216	403,851	4,378	1,174	800,594	405,025
Segment assets	36,889,045	27,210,764	1,504,298	1,540,430	38,393,343	28,751,194
Segment liabilities	31,955,299	22,798,843	1,477,723	1,472,801	33,433,022	24,271,644
Capital expenditure incurred during the year	75,435	19,374	819	346	76,254	19,720

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

26 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 to note 6. Information on credit risk relating to derivative instruments is provided in note 24.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

27 Concentration of assets, liabilities and off-balance sheet items

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

	Assets AED'000	2004 Liabilities and equity AED'000	Off-balance sheet items AED'000	Assets AED'000	2003 Liabilities and equity AED'000	Off-balance sheet items AED'000
Geographic region						
Domestic (UAE)	25,139,048	30,579,429	9,584,989	21,109,514	25,799,776	8,218,996
Other GCC countries	3,713,230	2,813,346	479,292	2,837,760	1,010,415	324,016
Other Arab countries	997,379	1,024,032	909,430	1,934	161,701	126,272
Asia	6,352,807	2,705,984	3,228,000	3,518,295	1,488,843	1,242,068
Europe	411,535	571,360	2,240,722	608,826	215,353	2,102,257
USA	331,215	166,408	99,229	226,369	32,994	96,933
Rest of the World	1,448,129	532,784	341,941	448,496	42,112	343,598
Total	38,393,343	38,393,343	16,883,603	28,751,194	28,751,194	12,454,140
Industry sector						
Commercial & business	8,468,150	5,968,061	7,633,101	7,233,035	3,979,815	5,432,825
Personal	10,605,450	10,153,626	1,977,146	7,860,162	9,629,614	1,106,895
Public sector	1,625,017	1,780,804	479,685	1,373,257	1,084,442	827,423
Government	6,707,992	10,747,884	727,200	6,045,356	9,491,975	870,003
Banks and financial institutions	10,986,734	9,742,968	6,066,471	6,239,384	4,565,348	4,216,994
Total	38,393,343	38,393,343	16,883,603	28,751,194	28,751,194	12,454,140

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

28 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

28 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2004 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		-	-	-	-	-	1,679,832	1,679,832
Due from Banks	3.35	5,083,530	1,589,728	792,683	114,002	-	4,254	7,584,197
Trading investment		-	-	-	-	-	297,011	297,011
Loans and advances, net	4.76	19,061,899	2,271,149	292,133	402,097	3,074,707	829,315	25,931,300
Investments	6.14	346,520	761,440	375,195	634,296	15,956	102,670	2,236,077
Other assets		-	-	-	-	-	463,807	463,807
Property, plant and equipment, net		-	-	-	-	-	201,119	201,119
Total assets		24,491,949	4,622,317	1,460,011	1,150,395	3,090,663	3,578,008	38,393,343
Liabilities and Equity								
Due to banks	4.88	1,247,411	524,234	73,460	1,325,931	-	1,099	3,172,135
Customers' deposits	1.55	18,016,994	2,108,859	2,270,270	1,231,162	300	6,183,979	29,811,564
Other liabilities		-	-	-	-	-	449,323	449,323
Equity		-	-	-	-	-	4,960,321	4,960,321
Total liabilities and equity		19,264,405	2,633,093	2,343,730	2,557,093	300	11,594,722	38,393,343
On-balance sheet gap		5,227,544	1,989,224	(883,719)	(1,406,698)	3,090,363	(8,016,714)	-
Off-balance sheet gap		-	39,900	(543,266)	597,027	(93,661)	-	-
Total interest rate sensitivity gap		5,227,544	2,029,124	(1,426,985)	(809,671)	2,996,702	(8,016,714)	-
Cumulative interest rate sensitivity gap		5,227,544	7,256,668	5,329,683	5,020,012	8,016,714	-	-

Included in non-trading investments and due to banks are interest bearing amounts of AED 1,064,852 thousand and AED 896,178 thousand respectively relating to the Bank's overseas branches with effective rates of 9.42% and 10.10% respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

28 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2003 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		-	-	-	-	-	1,314,840	1,314,840
Due from Banks	1.49	4,373,066	164,998	40,350	8,070	-	46,697	4,633,181
Loans and advances, net	4.34	12,521,608	1,068,993	802,020	1,957,155	906,256	2,014,468	19,270,500
Non trading investments	4.96	1,493,253	340,050	169,375	765,364	96,756	91,905	2,956,703
Property, plant and equipment, net		-	-	-	-	-	144,971	144,971
Other assets		-	-	-	-	-	430,999	430,999
Total assets		18,387,927	1,574,041	1,011,745	2,730,589	1,003,012	4,043,880	28,751,194
Liabilities and Equity								
Due to banks	3.70	1,865,809	123,624	-	1,290,868	-	83,305	3,363,606
Customers' deposits	1.32	13,531,985	937,379	505,777	236,481	1,257	4,155,333	19,368,212
Long term loan	1.25	-	-	-	1,200,000	-	-	1,200,000
Other liabilities		-	-	-	-	-	339,826	339,826
Equity		-	-	-	-	-	4,479,550	4,479,550
Total liabilities and equity		15,397,794	1,061,003	505,777	2,727,349	1,257	9,058,014	28,751,194
On-balance sheet gap		2,990,133	513,038	505,968	3,240	1,001,755	(5,014,134)	-
Off-balance sheet gap		264,787	638,821	(470,144)	(339,801)	(93,663)	-	-
Total interest rate sensitivity gap		3,254,920	1,151,859	35,824	(336,561)	908,092	(5,014,134)	-
Cumulative interest rate sensitivity gap		3,254,920	4,406,779	4,442,603	4,106,042	5,014,134	-	-

Included in non-trading investments and due to banks are interest bearing amounts of AED 1,060,262 thousand and AED 869,559 thousand respectively relating to the Bank's overseas branches with effective rates of 9.54% and 10.89% respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

28 Interest rate risk (continued)

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

29 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 has 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 on page 56 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 into account 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 based on contractual repayment arrangements was as follows:

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

29 Liquidity risk (continued)

	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	1,679,832	1,679,832	-	-	-	-	-
Due from Banks	7,584,197	5,087,785	1,460,431	425,383	581,302	-	29,296
Trading investments	297,011	297,011	-	-	-	-	-
Loans and advances, net	25,931,300	12,774,879	1,250,501	2,607,960	1,273,055	1,572,022	6,452,883
Non trading investments	2,236,077	43,860	140,277	448,655	1,122,892	266,339	214,054
Other assets	463,807	418,559	9,783	24,234	-	11,231	-
Property, plant and equipment, net	201,119	-	-	-	-	-	201,119
Total assets	38,393,343	20,301,926	2,860,992	3,506,232	2,977,249	1,849,592	6,897,352
Liabilities and Equity							
Due to banks	3,172,135	1,248,510	524,234	73,460	1,325,931	-	-
Customers' deposits	29,811,564	24,200,973	2,107,393	2,270,270	514,309	151	718,468
Long term loan	-	-	-	-	-	-	-
Other liabilities	449,323	395,818	18,012	21,169	6,489	1,532	6,303
Equity	4,960,321	312,500	-	-	-	-	4,647,821
Total liabilities and equity	38,393,343	26,157,801	2,649,639	2,364,899	1,846,729	1,683	5,372,592

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

29 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2003 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	1,314,840	1,314,840	-	-	-	-	-
Due from Banks	4,633,181	3,917,463	164,998	75,350	475,370	-	-
Loans and advances, net	19,270,500	8,498,963	1,199,792	1,664,407	4,082,888	1,543,409	2,281,041
Non trading investments	2,956,703	236,133	253,738	719,512	1,224,798	510,637	11,885
Other assets	430,999	344,520	67,968	18,511	-	-	-
Property, plant and equipment, net	144,971	-	-	-	-	-	144,971
Total assets	28,751,194	14,311,919	1,686,496	2,477,780	5,783,056	2,054,046	2,437,897
Liabilities and Equity							
Due to banks	3,363,606	1,949,114	123,624	-	1,290,868	-	-
Customers' deposits	19,368,212	16,769,068	1,855,629	505,777	236,481	1,216	41
Long term loan	1,200,000	-	-	-	-	-	1,200,000
Other liabilities	339,826	172,119	5,061	19,734	81,356	24	61,532
Equity	4,479,550	312,500	-	-	-	-	4,167,050
Total liabilities and equity	28,751,194	19,202,801	1,984,314	525,511	1,608,705	1,240	5,428,623

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

30 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 non-performing 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 cash flows.

The fair value of held to maturity investments and originated by the Bank investments are disclosed in note 7.

31 Capital adequacy

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

	2004 AED'000	2003 AED'000
Capital base	4,647,821	4,167,050
Risk weighted assets:		
Off-balance sheet exposures	4,589,174	3,525,546
Balance sheet assets	23,777,519	17,459,962
Total risk weighted assets	28,366,693	20,985,508
Capital adequacy ratio	16.38%	19.86%

32 Foreign currency balances

Net assets in Indian Rupees equivalent to AED 40 million (2003: AED 62.4 million) held in India are subject to the exchange control regulations of India.

33 Comparative figures

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

34 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting on January 19, 2005.

DIRECTORY
DIBECIOBY

MANAGEMENT DIRECTORY

GENERAL MANAGEMENT

HEAD OFFICE

Eirvin Knox

Chief Executive Officer

Seumas Gallacher

Acting Head, Corporate Banking Group

Ala'a Eraiqat

Head, Consumer Banking Group

Jim Coleman

Head, Treasury and Investments Group

Steve Dickens

Chief Operations Officer

Darren Robinson

Chief Financial Officer

Norman Alexander

Head, Strategic Planning & Projects

Bassam Daoud

Head, Credit Group

Zaki Hamadani

Head, Legal and Special Assets Management

Abdulla Jasem

Head, Human Resources Group

Yaser Mansour

Head, Corporate Communications

Abdul Hakim Kanan

Head, Internal Audit Department

Zuhair Aref

Board Secretary

HEAD OFFICE & BRANCHES DIRECTORY

HEAD OFFICE

ADCB, Abu Dhabi Mall (East Tower), Tourist Club Area, P.O. Box 939, Abu Dhabi, UAE
 Reuter Dealing: ADCU, Reuter Commentary: ADCB 01
 Telephone: 971 (2) 6962222 - PABX

BRANCHES AND ADDRESSES IN THE UAE

ABU DHABI EMIRATE	P.O. Box	TELEPHONE	TELEFAX	TELEX
Al Salam Street	2934	(02) 6720000	(02) 6720962	-
Corniche	2054	(02) 6275500	(02) 6275400	24241 ADCBCO EM
Hamdan Street	2832	(02) 6335820	(02) 6320396	22523 ADCBHM EM
Tourist Club Area	2800	(02) 6442800	(02) 6446980	-
Sh. Rashid Road	25993	(02) 4458288	(02) 4458499	24491 ADCBAK EM
Khalidiya	29923	(02) 6669910	(02) 6650227	23485 ADCBKL EM
Al Murroor	939	(02) 4447960	(02) 4444795	-
GHQ	25994	(02) 4415626	(02) 4415800	-
Al Najda Street	5154	(02) 6767700	(02) 6769966	23286 ADCBBS EM
Mussafah	9331	(02) 5544272	(02) 5544273	-
Al Shahama	76122	(02) 5632255	(02) 5633446	22746 ADCBAS EM
Baniyas Town	11616	(02) 5821550	(02) 5823529	23573 ADCBBT EM
Al Dhafra Air Base	11616	(02) 5851030	(02) 5851045	-
Zayed Town	50013	(02) 8846180	(02) 8847663	52206 ADCBZT EM
Ruwais	11851	(02) 8775015	(02) 8774704	52225 ADCBRW EM
Al Baya	76889	(02) 8721300	(02) 8728124	52219 ADCBSI EM
Gayathi	77731	(02) 8742155	(02) 8741626	52202 ADCBGB EM

HEAD OFFICE & BRANCHES DIRECTORY

BRANCHES AND ADDRESSES IN THE UAE

AL AIN	P.O. Box	TELEPHONE	TELEFAX	TELEX
Main Branch	15180	(03) 7550000	(03) 7541455	33544 ADCBMS EM
Khalifa Street	1820	(03) 7669999	(03) 7660349	33536 ADCBAL EM
Sina'eya (Industrial Area)	24699	(03) 7210009	(03) 7216193	-
Al Wagan	21879	(03) 7351444	(03) 7351799	-
Al Yahar	81084	(03) 7814000	(03) 7826600	-
Al Hayer	21112	(03) 7321888	(03) 7322883	-

DUBAI EMIRATE

Al Riggah Road	5550	(04) 2958888	(04) 2956632	46211 ADCBDI EM
Al Karama	12808	(04) 3345000	(04) 3348000	49191 ADCBKR EM
Naif Road	1069	(04) 2279000	(04) 2275095	49149 ADCBNF EM
Al Mina Road	9286	(04) 3984444	(04) 3982664	47866 ADCBDB EM
Al Quoz	37363	(04) 3388000	(04) 3386677	45410 ADCBDI EM
Al Qusais	19678	(04) 2634440	(04) 2633282	48107 ADCBAG EM

SHARJAH EMIRATE

Main Branch	4377	(06) 5737000	(06) 5725331	68544 ADCBSJ EM
Industrial Area	23657	(06) 5433300	(06) 5321285	-

RAS AL KHAIMAH EMIRATE

Ras Al Khaimah	1633	(07) 2332200	(07) 2332020	99224 ADCBRK EM
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HEAD OFFICE & BRANCHES DIRECTORY

FUJAIRAH EMIRATE	P.O. Box	TELEPHONE	TELEFAX	TELEX
Fujairah	770	(09) 2223900	(09) 2224900	89015 ADCBFJ EM
Dibba	13212	(09) 2446444	(09) 2444838	-
AJMAN EMIRATE				
Ajman	1843	(06) 7443444	(06) 7443300	69569 ADCBAJ EM
OVERSEAS BRANCHES - INDIA				
Mumbai	11248	(91) 22 22855658	(91) 22 22870686	11-85481 ADCB IN
Bangalore	5271	(91) 80 25582000	(91) 80 25582323	845-2934 ADCB IN