

Report of the Auditors to the Shareholders

We have audited the accompanying balance sheet of Commercial Bank of Dubai PSC ("the Bank") as of 31 December 2003 and the related statements of income and cash flows for the year then ended.

RESPECTIVE RESPONSIBILITY OF THE BANK'S MANAGEMENT, DIRECTORS AND THE AUDITORS

These financial statements are the responsibility of the Bank's Management and Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and comply, where appropriate, with the Articles of Association of the Bank and Federal Law No. 8 of 1984 (as amended).

OTHER MATTERS

As required by Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Bank, and the contents of the report of the Board of Directors which relate to the financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above-mentioned Law and the Articles of Association having occurred during the year ended 31 December 2003, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

21 January 2004



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Balance Sheet

31 December 2003

	Note	2003 AED'000	2002 AED'000
ASSETS			
Cash and balances with Central Bank	3	1,075,535	1,208,850
Financial assets held for trading		32,741	1,251
Due from banks		1,115,069	1,241,970
Loans and advances	4	5,762,107	4,895,522
Investments	5	252,925	129,702
Originated debt security		66,000	66,000
Property and equipment	6	330,411	292,768
Other assets	7	29,188	33,191
Total assets		8,663,976	7,869,254
LIABILITIES & SHAREHOLDERS' FUNDS			
LIABILITIES			
Customers' deposits		6,139,335	5,349,881
Due to banks		777,821	944,054
Other liabilities	8	86,562	101,953
Total liabilities		7,003,718	6,395,888
SHAREHOLDERS' FUNDS			
Share capital	9	496,037	450,943
Legal reserve	9	248,019	225,472
Capital reserve	9	38,638	38,638
Other reserve	9	595,000	545,000
Revaluation reserve	9	66,102	16,844
Reserve for proposed bonus issue	9	49,604	45,094
Proposed cash dividend and directors' remuneration	9	151,211	137,683
Retained earnings		15,647	13,692
Total shareholders' funds	9	1,660,258	1,473,366
Total liabilities and shareholders' funds		8,663,976	7,869,254

H.E. Ahmed Humaid Al Tayer
Chairman

H.E. Saeed Ahmed Ghobash
Deputy Chairman

Mr. Omar Abdel Rahim Leyas
Chief Executive

The attached notes on pages 27 to 41 form part of these financial statements.
The report of the Auditors is set out on page 22.

Statements of Income & Retained Earnings

31 December 2003

	Note	2003 AED'000	2002 AED'000
STATEMENT OF INCOME			
Interest income	10	332,600	330,584
Interest expense	11	38,694	60,992
Net interest income		293,906	269,592
Net fees and commission income		87,388	74,564
Net gains from dealing in foreign currencies		11,704	10,412
Net trading income	12	9,228	5,383
Income on sale of available-for-sale investments		5,069	1,335
Dividend income		3,375	4,233
Other operating income		3,369	6,425
Net operating income		414,039	371,944
Net recoveries/(net impairment losses)		7,539	(7,589)
Provision for decline in value of investments		(377)	-
Impairment loss on investments transferred to income statement		(590)	-
Net interest and other income after recoveries/impairment losses		420,611	364,355
Operating expenses			
General and administrative expenses		129,966	116,050
Depreciation	6	15,328	14,886
Total operating expenses		145,294	130,936
Net profit for the year		275,317	233,419
Earnings per share	20	AED 5.55	AED 4.71
STATEMENT OF RETAINED EARNINGS			
Retained earnings at 1 January		13,692	13,050
Net profit for the year		275,317	233,419
Profit available for appropriation		289,009	246,469
Proposed appropriation:			
Transfer to legal reserve	9	22,547	-
Transfer to other reserve	9	50,000	50,000
Transfer to reserve for proposed bonus issue	9	49,604	45,094
Proposed cash dividend	9	148,811	135,283
Proposed directors' remuneration	9	2,400	2,400
		273,362	232,777
Retained earnings at 31 December		15,647	13,692

The attached notes on pages 27 to 41 form part of these financial statements.
The report of the Auditors is set out on page 22.

Statement of Cash Flows

31 December 2003

OPERATING ACTIVITIES

	2003 AED'000	2002 AED'000
Net profit for the year	275,317	233,419
<i>Adjustments for:</i>		
Depreciation	15,328	14,886
Gain on sale of property and equipment	(115)	(167)
Investment income	(9,740)	(5,676)
Unrealized (gains)/losses on equities held for trading	(3,795)	20
Realized gains on sales of available-for-sale investments	(3,320)	(479)
Impairment loss on investments transferred to income statement	590	-
Provision for decline in value of investments	377	-
Directors' remuneration paid during the year	(2,400)	(2,100)
Operating profit before working capital changes	272,242	239,903
Increase in loans and advances	(866,585)	(352,027)
Decrease in other assets	4,003	36,787
Increase in customers' deposits	789,454	257,026
Decrease/(increase) in due from banks maturing after three months	7,087	(5,983)
(Decrease)/increase in other liabilities	(15,391)	30,652
Net cash generated from operating activities	190,810	206,358

INVESTING ACTIVITIES

Purchase of investments	(118,189)	(14,414)
Purchase of property and equipment	(52,980)	(102,524)
Investment income	9,740	5,676
Proceeds on disposal of property and equipment	124	345
Proceeds from sale of investments	18,882	11,396
Net cash used in investing activities	(142,423)	(99,521)

FINANCING ACTIVITIES

Cash dividend paid during the year	(135,283)	(135,283)
Net cash used in financing activities	(135,283)	(135,283)

DECREASE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 1 January	1,499,679	1,528,125
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,412,783	1,499,679

CASH AND CASH EQUIVALENTS CONSIST OF:

Cash and balances with the Central Bank	1,075,535	1,208,850
Due from banks maturing within three months	1,115,069	1,234,883
Due to banks maturing within three months	(777,821)	(944,054)
1,412,783	1,499,679	

The attached notes on pages 27 to 41 form part of these financial statements.
The report of the Auditors is set out on page 22.

Statement of Changes in Shareholders' Funds

31 December 2003

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	Other reserve AED'000	Revaluation reserve AED'000	Proposed distributions AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2002	450,943	225,472	38,638	495,000	12,579	137,383	13,050	1,373,065
Dividend paid	-	-	-	-	-	(135,283)	-	(135,283)
Directors' remuneration paid	-	-	-	-	-	(2,100)	-	(2,100)
Realized gains on sale of available-for sale-investments	-	-	-	-	(479)	-	-	(479)
Revaluation of available-for-sale investments	-	-	-	-	4,744	-	-	4,744
Net profit for the year	-	-	-	-	-	-	233,419	233,419
Transfer to other reserve	-	-	-	50,000	-	-	(50,000)	-
Proposed bonus issue (10%)	-	-	-	-	-	45,094	(45,094)	-
Proposed cash dividend (30%)	-	-	-	-	-	135,283	(135,283)	-
Proposed directors' remuneration	-	-	-	-	-	2,400	(2,400)	-
At 31 December 2002	450,943	225,472	38,638	545,000	16,844	182,777	13,692	1,473,366
Bonus issue	45,094	-	-	-	-	(45,094)	-	-
Dividend paid	-	-	-	-	-	(135,283)	-	(135,283)
Directors' remuneration paid	-	-	-	-	-	(2,400)	-	(2,400)
Realized gains on sale of available-for sale-investments	-	-	-	-	(3,320)	-	-	(3,320)
Revaluation of available-for-sale investments	-	-	-	-	51,988	-	-	51,988
Impairment loss on investments transferred to income statement	-	-	-	-	590	-	-	590
Net profit for the year	-	-	-	-	-	-	275,317	275,317
Transferred to legal reserve	-	22,547	-	-	-	-	(22,547)	-
Transfer to other reserve	-	-	-	50,000	-	-	(50,000)	-
Proposed bonus issue (10%)	-	-	-	-	-	49,604	(49,604)	-
Proposed cash dividend (30%)	-	-	-	-	-	148,811	(148,811)	-
Proposed directors' remuneration	-	-	-	-	-	2,400	(2,400)	-
At 31 December 2003	496,037	248,019	38,638	595,000	66,102	200,815	15,647	1,660,258

The attached notes on pages 27 to 41 form part of these financial statements.

Notes to The Financial Statements

31 December 2003

1. GENERAL

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai in 1969 and is registered as a public shareholding company in accordance with Federal Law No. 8 of 1984 (as amended).

The registered address of the Bank is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

The Bank's principal activity is commercial banking.

The number of employees in the Bank is 663 (2002: 635).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the Standing Interpretations Committee of the IASB.

The financial statements are presented in United Arab Emirates Dirhams ("AED").

b) Basis of preparation

The financial statements are prepared on a fair value basis for investments held for trading, forward foreign exchange contracts held for trading and investments available-for-sale, except those for which a reliable measure of fair value is not available, which are accounted for at cost. Other financial assets and liabilities and non financial assets and liabilities are stated at amortized cost or historical cost, except for donated land which is valued at the market value on the date of donation.

The Bank has consistently applied the accounting policies used in the previous year.

c) Financial instruments

i) Classification

A financial instrument is any contract that gives rise to both a financial asset for the Bank and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except property and equipment and shareholders' equity.

Financial instruments are categorized as follows:

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These comprise equity investments.

Originated loans and advances are loans and receivables created by the Bank providing money to a debtor. Originated loans and receivables comprise deposits and other balances due from banks and loans and advances to customers as well as bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt investments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held-to-maturity. Available-for-sale instruments comprise equity investments.

ii) Recognition of financial instruments

The Bank initially recognizes financial assets and liabilities on its balance sheet on the date it becomes a party to the contractual provisions of the instrument. Any gains and losses arising from changes in the fair value of the asset are recognized from this date.

Notes to The Financial Statements (Continued)

31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Derecognition of financial instruments

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the assets. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished.

iv) Measurement of financial instruments

The Bank measures all financial instruments initially at cost, including transaction costs.

Subsequent to the initial recognition, all financial instruments held for trading and investments available-for-sale are measured at their fair value, except any instrument that does not have a reliably measurable fair value. Such instruments are measured at acquisition cost, including transaction costs less impairment losses, if any.

All other financial instruments are measured at amortized cost less impairment losses.

v) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

vi) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments held for trading are recognized in the income statement.

Gains and losses arising from a change in the fair value of available-for-sale investments are recognized directly in the revaluation reserve. When these financial assets are sold, the cumulative gain or loss recognized in revaluation reserve is transferred to the income statement.

d) Loans and advances

Loans and advances are financial instruments originated by the Bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses.

Impairment losses represent the difference between the carrying value and the present value of the anticipated cash flows discounted at original effective interest rates. These losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio based on previous experience and which have not yet been specifically identified.

e) Investments

Trading investments are held for the purpose of short term profit taking and are stated at their fair value.

Held-to-maturity investments, which are debt investments with fixed payments and maturity that the Bank has the intent and ability to hold to maturity, are stated at amortized cost less impairment losses.

Available-for-sale investments, which are equity and debt investments are stated at their fair value.

Notes to The Financial Statements (Continued)

31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Originated debt security

Originated debt securities are debt investments originated by the Bank which are stated at amortized cost less impairment losses.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for donated land, which is stated at the market value at the date of donation (Refer Note 6).

h) Depreciation

The cost of all property and equipment other than freehold land and capital work in progress is depreciated by equal installments over their estimated useful lives which are as follows:

- Buildings	20 to 30 years
- Leasehold improvements	5 years
- Furniture, equipment and vehicles	3 to 5 years

i) Revenue recognition

Interest income and expense are recognized in the income statement on an accrual basis. Interest on impaired loans and advances is recognized on their residual value using original effective interest rates.

Fees and commissions are recognized when the related service is provided.

Dividend income is recognized on the date the dividend is declared.

Net trading income arises from gains and losses resulting from disposal or maturity of investments and changes in the fair value of financial assets and liabilities held for trading when they occur.

j) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at mid market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to income.

k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with the Central Bank, due from and due to banks maturing within three months of the balance sheet date.

l) Employees' terminal benefits

Provision is made for amounts payable under the UAE Labour Law applicable to non UAE citizens, accumulated periods of service at the balance sheet date. The Bank pays its contributions in respect of UAE citizens under the UAE Pension and Social Security Law.

Notes to The Financial Statements (Continued)

31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Offsetting

Financial assets and liabilities are offset and the net amount is reported on the balance sheet only when the bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

n) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of originated loans and advances is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. The loan is written off directly when it is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

Financial assets remeasured to fair value directly through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest. Where an asset remeasured to fair value directly through equity is impaired, and a write down of the asset was previously recognized directly in equity, the write-down is transferred to the income statement and recognized as part of the impairment loss.

Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in the income statement. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

3. CASH AND BALANCES WITH CENTRAL BANK

	2003 AED'000	2002 AED'000
Cash on hand	159,431	122,736
Balances with the Central Bank	476,104	341,114
Negotiable certificates of deposit with the Central Bank	440,000	745,000
	1,075,535	1,208,850

Notes to The Financial Statements (Continued)

31 December 2003

4. LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

Analysis by Type	2003 AED'000	2002 AED'000
Overdrafts	2,692,626	2,243,508
Loans	2,751,918	2,442,291
Advances against letters of credit and trust receipts	273,138	217,950
Bills discounted	266,039	221,762
	5,983,721	5,125,511
Provisions for impairment losses	(221,614)	(229,989)
Loans and advances (net)	5,762,107	4,895,522

Analysis by Sector	2003		2002	
	Domestic AED'000	International AED'000	Domestic AED'000	International AED'000
Commercial and business	4,527,785	2,880	3,643,286	2,880
Banks and financial institutions	21,638	-	26,425	-
Government and public sector entities	65,702	18,991	72,985	22,348
Personal loans	569,801	-	504,021	-
Others	776,922	2	852,271	1,295
Loans and advances (gross)	5,961,848	21,873	5,098,988	26,523

The movements of provisions for impairment losses are as follows:

	2003 AED'000	2002 AED'000
Balance at 1 January	229,989	218,832
Amounts written off during the year	(19,705)	(13,963)
Charge for the year	20,232	28,109
Interest not recognized*	18,869	17,531
Recoveries	(27,771)	(20,520)
Balance at 31 December	221,614	229,989

* Interest not recognized is the excess of interest accruing on the face value of impaired loans and advances over the interest recognized on the residual amount.

Notes to The Financial Statements (Continued)

31 December 2003

5. INVESTMENTS

HELD-TO-MATURITY:

Government securities

AVAILABLE-FOR-SALE:

Quoted equities

Total Investments

Less: Provision for decline in value of investments

Total investments (net)

2003 AED'000	2002 AED'000
97,841	11,019
155,461	118,683
253,302	129,702
(377)	-
252,925	129,702

6. PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2003	200,410	12,006	61,275	123,328	397,019
Additions during the year	13,905	639	9,549	28,887	52,980
Transfer from WIP	127,527	-	19,108	(146,635)	-
Disposals	-	-	(1,641)	-	(1,641)
At 31 December 2003	341,842	12,645	88,291	5,580	448,358
Depreciation					
At 1 January 2003	45,172	7,231	51,848	-	104,251
Charge for the year	6,927	1,806	6,595	-	15,328
On disposals	-	-	(1,632)	-	(1,632)
At 31 December 2003	52,099	9,037	56,811	-	117,947
Net book values					
At 31 December 2003	289,743	3,608	31,480	5,580	330,411
At 31 December 2002	155,238	4,775	9,427	123,328	292,768

Freehold land and buildings include the market value of a plot of land donated to the Bank by the Government of Dubai in 1998. The market value, which was determined at that time by independent appraisers at AED 38,638,000, has been credited to capital reserve.

Notes to The Financial Statements (Continued)

31 December 2003

7. OTHER ASSETS

	2003 AED'000	2002 AED'000
Interest receivable	19,869	18,612
Accounts receivable and prepayments	9,319	14,579
	29,188	33,191

8. OTHER LIABILITIES

	2003 AED'000	2002 AED'000
Interest payable	4,738	9,827
Employees' terminal benefits	28,555	26,892
Sundry creditors and unearned income	53,269	65,234
	86,562	101,953

9. SHAREHOLDERS' FUNDS

Share capital

The issued and fully paid share capital as at 31 December 2003 comprised 49,603,708 shares of AED 10 each (2002: 45,094,280 shares of AED 10 each).

The proposed 10% bonus issue to the shareholders for the year ended 31 December 2002 was approved by the Extraordinary General Meeting of the shareholders held on 26 February 2003 and transferred to share capital in 2003 after all legal procedures were completed.

Legal reserve

Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Bank's Articles of Association require that 10% of the annual net profit be transferred to a legal reserve. With the proposed transfer of AED 22,547,000 the reserve now amounts to 50% of the paid up share capital. Accordingly, the Board of Directors have recommended through the Annual General Meeting of the shareholders that further annual transfers be discontinued, as permitted by law. The legal reserve is not available for distribution except under the circumstances stipulated by the law.

Capital reserve

This reserve represents the market value of the donated land at the date of donation and is not available for distribution to the shareholders.

Other reserve

The other reserve is a general reserve and is available for distribution.

Revaluation reserve

The revaluation reserve comprises the net change in the fair value of available-for-sale investments held by the Bank. This reserve will be maintained until the financial assets are disposed of or are impaired. This reserve is not available for distribution to the shareholders.

Notes to The Financial Statements (Continued)

31 December 2003

9. SHAREHOLDERS' FUNDS (CONTINUED)

Proposed distributions

The Board of Directors recommends the following for approval by the shareholders at the Annual and Extra -ordinary General Meetings of the shareholders to be held on 18 February 2004:

i) Reserve for proposed bonus issue

A bonus issue of 10% in the ratio of 1 bonus share for every 10 shares held (2002: 10%) is proposed. This amount would be transferred to share capital on completion of all legal formalities.

ii) Proposed cash dividend

A cash dividend of 30% of the share capital amounting to AED 148,811,000 (2002: AED 135,283,000) is proposed representing a dividend of AED 3 per share (2002: AED 3 per share).

iii) Proposed directors' remuneration

Directors' remuneration of AED 2,400,000 (2002: AED 2,400,000) is proposed for approval.

10. INTEREST INCOME

	2003 AED'000	2002 AED'000
Loans and advances	313,663	309,136
Certificates of deposit	5,069	11,157
Due from banks	5,568	6,929
Investments held-to-maturity	6,895	1,451
Originated debt security	1,405	1,911
	332,600	330,584

11. INTEREST EXPENSE

	2003 AED'000	2002 AED'000
Due to banks	1,230	1,349
Customers' deposits	37,464	59,643
	38,694	60,992

12. NET TRADING INCOME

	2003 AED'000	2002 AED'000
Foreign exchange contracts	4,137	5,295
Realized gains on sale of equities held for trading	1,296	108
Unrealized gains/(losses) on equities held for trading	3,795	(20)
	9,228	5,383

Notes to The Financial Statements (Continued)

31 December 2003

13. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit, guarantees and acceptances and forward foreign exchange contracts which are designed to meet the requirements of the Bank's customers toward third parties. Commitments represent the Bank's commitments towards approved unutilized credit facilities and other commitments of the Bank. The amounts reflected below represent the maximum accounting loss that would be recognized at the balance sheet date if counter-parties failed completely to perform as contracted.

The Bank had the following contingent liabilities and commitments:

Contingent liabilities:	2003 AED'000	2002 AED'000
Letters of credit	752,986	525,075
Guarantees and acceptances	1,961,552	1,416,788
Forward foreign exchange contracts	239,232	82,960
	2,953,770	2,024,823
Commitments:		
Undrawn loans and advances commitments	2,544,691	2,572,578
Future capital expenditure authorized by the Directors	35,190	57,463
	2,579,881	2,630,041
Total contingent liabilities and commitments	5,533,651	4,654,864

The Bank had significant net exposures in the following foreign currencies:

	2003 AED'000	2002 AED'000
US Dollar	(1,620)	(2,941)
Pound Sterling	3,437	3,597
Japanese Yen	14,027	1,264
Euro	23,725	3,070
Others	(33,291)	9,716
Net exposure long	6,278	14,706

The Bank's management sets up policies and limits for foreign exchange dealing and regularly reviews the foreign currency exposure.

Notes to The Financial Statements (Continued)

31 December 2003

14. MATURITIES OF ASSETS AND LIABILITIES

The maturity profile of assets and liabilities at 31 December 2003 was as follows:

	Total	Less than	From 3 to	From 6 months	Over
	AED'000	3 months	6 months	to 1 year	1 year
		AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with Central Bank	1,075,535	1,075,535	-	-	-
Financial assets held for trading	32,741	32,741	-	-	-
Due from banks	1,115,069	1,115,069	-	-	-
Loans and advances	5,762,107	3,022,465	160,015	152,577	2,427,050
Investments	252,925	-	-	-	252,925
Originated debt security	66,000	-	-	-	66,000
Property and equipment	330,411	337	386	1,214	328,474
Other assets	29,188	29,188	-	-	-
Total Assets	8,663,976	5,275,335	160,401	153,791	3,074,449
Liabilities and Shareholders' funds					
Customers' deposits	6,139,335	5,113,122	600,458	407,447	18,308
Due to banks	777,821	777,821	-	-	-
Other liabilities	86,562	86,562	-	-	-
Shareholders' funds	1,660,258	151,211	-	-	1,509,047
Total Liabilities and Shareholders' funds	8,663,976	6,128,716	600,458	407,447	1,527,355

The maturity profile of assets and liabilities at 31 December 2002 was as follows:

	Total	Less than	From 3 to	From 6 months	Over
	AED'000	3 months	6 months	to 1 year	1 year
		AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with Central Bank	1,208,850	1,208,850	-	-	-
Financial assets held for trading	1,251	1,251	-	-	-
Due from banks	1,241,970	1,234,883	7,087	-	-
Loans and advances	4,895,522	2,532,296	121,069	114,134	2,128,023
Investments	129,702	-	-	-	129,702
Originated debt security	66,000	-	-	-	66,000
Property and equipment	292,768	404	599	1,303	290,462
Other assets	33,191	33,191	-	-	-
Total Assets	7,869,254	5,010,875	128,755	115,437	2,614,187
Liabilities and Shareholders' funds					
Customers' deposits	5,349,881	4,386,467	619,773	333,969	9,672
Due to banks	944,054	944,054	-	-	-
Other liabilities	101,953	91,528	-	-	10,425
Shareholders' funds	1,473,366	137,683	-	-	1,335,683
Total Liabilities and Shareholders' funds	7,869,254	5,559,732	619,773	333,969	1,355,780

Notes to The Financial Statements (Continued)

31 December 2003

14. MATURITIES OF ASSETS AND LIABILITIES (CONTINUED)

The previous reflects the contractual maturities of assets and liabilities, which have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. In the case of assets and liabilities that do not have a contractual maturity date, the period in which these are assumed to mature is taken as the expected date of maturity. The maturity profile is monitored by the Bank's management to ensure adequate liquidity is maintained.

15. CONCENTRATION OF ASSETS, LIABILITIES AND CONTINGENT LIABILITIES

	2003			2002		
	Assets AED'000	Liabilities AED'000	Contingent Liabilities AED'000	Assets AED'000	Liabilities AED'000	Contingent Liabilities AED'000
Geographic region						
Domestic	8,454,580	6,855,664	2,890,319	7,605,770	6,257,390	1,958,266
International	209,396	148,054	63,451	263,484	138,498	66,557
Total	8,663,976	7,003,718	2,953,770	7,869,254	6,395,888	2,024,823
Customer groups						
Commercial and business	4,706,710	2,449,643	2,577,091	4,014,777	2,020,340	1,781,760
Banks and financial institutions	2,177,172	969,868	334,633	2,419,847	1,104,174	175,269
Government and public sector entities	229,543	778,432	471	150,001	714,290	1,272
Individuals	1,022,183	2,601,786	36,793	869,104	2,330,715	34,029
Others	528,368	203,989	4,782	415,525	226,369	32,493
Total	8,663,976	7,003,718	2,953,770	7,869,254	6,395,888	2,024,823

Domestic represents all balances with United Arab Emirates residents regardless of the currency and international represents balances with overseas residents.

16. SEGMENTAL ANALYSIS

The Bank operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial and retail banking activities.

17. RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties (major non-Government shareholders of the Bank, Directors and officers of the Bank and companies of which they are principal owners) who were customers of the Bank during the year. The terms of these transactions are approved by the Bank's management on agreed terms.

The significant balances and transactions included in the financial statements are as follows:

	2003 AED'000	2002 AED'000
Loans and advances at 31 December	203,245	220,719
Customers' deposits at 31 December	92,553	54,739
Contingent liabilities and commitments at 31 December	132,369	90,801
Interest income for the year	6,772	6,652
Interest expense for the year	263	706

Notes to The Financial Statements (Continued)

31 December 2003

18. INTEREST RATE RISK MANAGEMENT

The following is the Bank's interest rate sensitivity position, as at 31 December 2003, based on the contractual repricing or maturity dates, whichever dates are earlier:

	Effective Interest rate %	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	Over 1 year AED'000	Non- interest bearing AED'000	Total AED'000
Assets							
Cash and balances with Central Bank	1.1	440,000	-	-	-	635,535	1,075,535
Financial assets held for trading	-	-	-	-	-	32,741	32,741
Due from banks	1.2	1,038,225	-	-	-	76,844	1,115,069
Loans and advances	5.9	4,295,175	663,339	91,533	712,060	-	5,762,107
Investments	8.0	-	7,346	-	90,495	155,084	252,925
Originated debt security	2.1	-	66,000	-	-	-	66,000
Property and equipment	-	-	-	-	-	330,411	330,411
Other assets	-	-	-	-	-	29,188	29,188
Total Assets		5,773,400	736,685	91,533	802,555	1,259,803	8,663,976
Liabilities and shareholders' funds							
Customers' deposits	0.7	2,597,867	354,828	567,418	542,570	2,076,652	6,139,335
Due to banks	0.9	736,911	10,305	-	-	30,605	777,821
Other liabilities	-	-	-	-	-	86,562	86,562
Shareholders' funds	-	-	-	-	-	1,660,258	1,660,258
Total liabilities and shareholders' funds		3,334,778	365,133	567,418	542,570	3,854,077	8,663,976
Total interest rate sensitivity gap		2,438,622	371,552	(475,885)	259,985	(2,594,274)	-
Cumulative interest rate sensitivity gap		2,438,622	2,810,174	2,334,289	2,594,274	-	-

Notes to The Financial Statements (Continued)

31 December 2003

18. INTEREST RATE RISK MANAGEMENT (CONTINUED)

The following is the Bank's interest rate sensitivity position, as at 31 December 2002, based on the contractual repricing or maturity dates, whichever dates are earlier:

	Effective Interest rate %	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	Over 1 year AED'000	Non- interest bearing AED'000	Total AED'000
Assets							
Cash and balances with Central Bank	1.7	745,000	-	-	-	463,850	1,208,850
Financial assets held for trading		-	-	-	-	1,251	1,251
Due from banks	1.8	1,162,332	23,095	7,087	-	49,456	1,241,970
Loans and advances	6.2	3,700,097	528,156	138,400	528,869	-	4,895,522
Investments	10.1	-	11,019	-	-	118,683	129,702
Originated debt security	2.9	-	66,000	-	-	-	66,000
Property and equipment		-	-	-	-	292,768	292,768
Other assets		-	-	-	-	33,191	33,191
Total Assets		5,607,429	628,270	145,487	528,869	959,199	7,869,254
Liabilities and shareholders' funds							
Customers' deposits	1.2	2,357,665	316,983	967,987	194,848	1,512,398	5,349,881
Due to banks	0.9	912,300	-	-	-	31,754	944,054
Other liabilities		-	-	-	-	101,953	101,953
Shareholders' funds		-	-	-	-	1,473,366	1,473,366
Total liabilities and shareholders' funds		3,269,965	316,983	967,987	194,848	3,119,471	7,869,254
Total interest rate sensitivity gap		2,337,464	311,287	(822,500)	334,021	(2,160,272)	-
Cumulative interest rate sensitivity gap		2,337,464	2,648,751	1,826,251	2,160,272	-	-

The effective interest rate 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 amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The Bank manages its interest rate sensitivity position, based on anticipated and actual interest rate movements, in order to maximize net interest income.

The effective interest rate for loans and advances has been computed excluding non-performing loans amounting to AED 281.3 million (2002: AED 283.7 million).

Notes to The Financial Statements (Continued)

31 December 2003

19. RISK MANAGEMENT

This note provides details of the Bank's exposure to risk and describes the methods used by management to manage risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk

Credit risk, both on and off-balance sheet, is managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. To reduce individual counterparty credit risk the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Credit limits are also established for industries, countries and products to ensure the broad diversification of credit risk and to avoid undue concentration. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

For details of the composition of the loans and advances portfolio refer to note 4. For a geographical distribution of assets, liabilities and contingent liabilities refer to note 15.

Liquidity risk

Liquidity risk arises in the general funding activities of the Bank and the management of positions. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including customer deposits, money market acceptances and capital. The maturity profile is monitored by management to ensure adequate liquidity is maintained. Note 14 analyses the contractual maturities of assets and liabilities. These have been determined on the basis of the remaining period to maturity as at the balance sheet date but do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and six months LIBOR and different types of interest. The Bank proactively manages its interest rate sensitivity position, based on anticipated and actual interest rate movements, in order to maximize net interest income. Note 18 analyses the Bank's interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier.

Foreign exchange risk

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on counter-party and currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the front office and back office functions while compliance with position limits is being monitored on an ongoing basis. The foreign currency positions are monitored continuously by the Bank.

Notes to The Financial Statements (Continued)

31 December 2003

20. EARNINGS PER SHARE

The earnings per share is based on the profit attributable to shareholders for the year amounting to AED 275,317,000 (2002: AED 233,419,000), and on the weighted average number of shares in issue totaling to 49,603,708 (2002: 49,603,708). The earnings per share for 2002 has been restated to reflect the bonus issue made during the year for 2002.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in these financial statements.