ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 84.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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 U.A.E. 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 its financial performance.

Saba Y. Sindaha
Registration Number 410
February 4, 2009

Consolidated balance sheet
as at December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$'000
ASSETS				
Cash and balances with Central Banks	5	3,911,009	15,657,588	1,064,800
Deposits and balances due from banks	6	17,528,422	6,030,364	4,772,236
Trading securities	7	-	122,433	-
Loans and advances, net	8	108,812,970	75,676,082	29,625,094
Derivative financial instruments	9	6,202,686	3,068,242	1,688,725
Investment securities	10	3,422,794	2,968,188	931,880
Investments in associates	11	4,427,529	-	1,205,426
Investment properties	12	632,492	445,730	172,200
Other assets	13	2,210,122	1,752,721	601,721
Property and equipment, net	14	580,186	492,501	157,960
Total assets		147,728,210	106,213,849	40,220,042
LIABILITIES				
Due to banks	15	6,905,263	5,598,376	1,880,006
Customers' deposits	16	84,360,821	57,160,820	22,967,825
Mandatory convertible securities – liability component	17	168,435	-	45,858
Short and medium term borrowings	18	30,566,548	27,370,264	8,321,957
Derivative financial instruments	9	6,363,966	2,413,269	1,732,634
Other liabilities	19	3,448,025	2,259,377	938,749
Total liabilities		131,813,058	94,802,106	35,887,029
EQUITY				
Share capital	20	4,810,000	4,000,000	1,309,556
Statutory and legal reserves	21	2,627,979	2,380,661	715,486
General and contingency reserves	21	2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	22	(25,708)	-	(6,999)
Foreign currency translation reserve		(392,022)	8,253	(106,731)
Proposed dividends	23	481,000	1,210,000	130,956
Cumulative changes in fair values		(625,014)	(94,854)	(170,164)
Retained earnings		2,147,431	1,643,452	584,653
Mandatory convertible securities – equity component	17	4,633,883	-	1,261,607
Equity attributable to equity holders of the parent		15,807,549	11,297,512	4,303,717
Minority interest		107,603	114,231	29,296
Total equity		15,915,152	11,411,743	4,333,013
Total liabilities and equity		147,728,210	106,213,849	40,220,042
Commitments and contingent liabilities	34	52,161,266	55,604,642	14,201,270

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer

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

Consolidated income statement
for the year ended December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$'000
Interest income	24	**5,945,910**	5,992,224	**1,618,816**
Interest expense	25	**(3,437,434)**	(3,703,809)	**(935,866)**
Net interest income		**2,508,476**	2,288,415	**682,950**
Net fee and commission income	26	**982,094**	873,960	**267,382**
Net gains from dealing in foreign currencies	27	**278,558**	116,566	**75,839**
Increase in fair value of investment properties	12	**178,148**	295,361	**48,502**
Net gain on dealing in derivatives		**131,015**	87,724	**35,670**
Dividend income		**11,076**	356	**3,016**
Net gain from trading and investment securities	28	**78,565**	105,456	**21,390**
Other operating income		**78,675**	32,036	**21,420**
Share of profit of associates, net		**171,557**	-	**46,708**
Operating income		**4,418,164**	3,799,874	**1,202,877**
Staff expenses		**(848,110)**	(543,743)	**(230,904)**
Depreciation	14	**(57,330)**	(50,252)	**(15,608)**
Other operating expenses		**(619,721)**	(414,635)	**(168,723)**
Impairment allowances on financial assets	29	**(1,498,147)**	(702,958)	**(407,881)**
Operating expenses		**(3,023,308)**	(1,711,588)	**(823,116)**
Profit from operations before distribution to depositors and taxation		**1,394,856**	2,088,286	**379,761**
Distribution to depositors	16	**(27,865)**	-	**(7,586)**
Overseas income tax expense	31	**(8,518)**	(3,356)	**(2,319)**
Net profit for the year		**1,358,473**	2,084,930	**369,856**
Attributed to:				
Equity holders of the parent		**1,236,592**	1,987,518	**336,673**
Minority interest		**121,881**	97,412	**33,183**
Net profit for the year		**1,358,473**	2,084,930	**369,856**
Basic and diluted earnings per share (AED/US$)	30	**0.26**	0.41	**0.07**

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

Consolidated statement of changes in equity
for the year ended December 31, 2008

	Notes	Share capital	Statutory reserve	Legal reserve	General reserve	Contingency reserve	Mandatory convertible securities – equity component	Foreign currency translation reserve	Proposed dividends	Cumulative changes in fair values	Employees' incentive plan shares	Employees' incentive plan reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total equity
		AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at January 1, 2008		4,000,000	1,212,724	1,167,937	2,000,000	150,000	-	8,253	1,210,000	(94,854)	-	-	1,643,452	11,297,512	114,231	11,411,743
Exchange difference arising on translation of foreign operations and associates		-	-	-	-	-	-	(421,285)	-	-	-	-	-	(421,285)	-	(421,285)
Fair value changes on available for sale investments		-	-	-	-	-	-	-	-	(544,713)	-	-	-	(544,713)	-	(544,713)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	-	-	11,608	-	-	-	11,608	-	11,608
Share of comprehensive income statement items of associate (RHB Capital Berhad)	11	-	-	-	-	-	-	21,010	-	3,400	-	-	-	24,410	-	24,410
Sub total		-	-	-	-	-	-	(400,275)	-	(529,705)	-	-	-	(929,980)	-	(929,980)
Issue of mandatory convertible securities	17	-	-	-	-	-	4,633,883	-	-	-	-	-	-	4,633,883	-	4,633,883
Dividends paid	23	-	-	-	-	-	-	-	(400,000)	-	-	-	-	(400,000)	(128,509)	(528,509)
Bonus shares issued	23	810,000	-	-	-	-	-	-	(810,000)	-	-	-	-	-	-	-
Shares granted	22	-	-	-	-	-	-	-	-	-	(38,131)	-	-	(38,131)	-	(38,131)
Shares-vested portion	22	-	-	-	-	-	-	-	-	-	-	12,423	-	12,423	-	12,423
Net profit for the year 2008		-	-	-	-	-	-	-	-	-	-	-	1,236,592	1,236,592	121,881	1,358,473
Board of directors' Remuneration		-	-	-	-	-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Transfer to statutory reserve	21	-	123,659	-	-	-	-	-	-	-	-	-	(123,659)	-	-	-
Transfer to legal reserve	21	-	-	123,659	-	-	-	-	-	-	-	-	(123,659)	-	-	-
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	-	(455)	-	-	455	-	-	-
Proposed dividends	23	-	-	-	-	-	-	-	481,000	-	-	-	(481,000)	-	-	-
Balance at December 31, 2008		4,810,000	1,336,383	1,291,596	2,000,000	150,000	4,633,883	(392,022)	481,000	(625,014)	(38,131)	12,423	2,147,431	15,807,549	107,603	15,915,152

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

Consolidated statement of changes in equity for the year ended December 31, 2008 (continued)

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2007		4,000,000	1,013,972	969,185	1,925,000	150,000	-	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178
Exchange difference arising on translation of foreign operations		-	-	-	-	-	8,253	-	-	-	8,253	-	8,253
Fair value changes on available for sale investments		-	-	-	-	-	-	-	(144,581)	-	(144,581)	-	(144,581)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	-	2,694	-	2,694	-	2,694
Sub total		-	-	-	-	-	8,253	-	(141,887)	-	(133,634)	-	(133,634)
Dividends paid	23	-	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)	(48,981)	(1,258,981)
Net profit for the year 2007		-	-	-	-	-	-	-	-	1,987,518	1,987,518	97,412	2,084,930
Transfer to statutory reserve	21	-	198,752	-	-	-	-	-	-	(198,752)	-	-	-
Transfer to legal reserve	21	-	-	198,752	-	-	-	-	-	(198,752)	-	-	-
Transfer to general reserve	21	-	-	-	75,000	-	-	-	-	(75,000)	-	-	-
Board of directors' remuneration		-		-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	(296)	296	-	-	-
Proposed cash dividends	23	-	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2007		4,000,000	1,212,724	1,167,937	2,000,000	150,000	8,253	1,210,000	(94,854)	1,643,452	11,297,512	114,231	11,411,743

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

Consolidated statement of cash flow
for the year ended December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$ 000
OPERATING ACTIVITIES				
Net profit after distribution to depositors but before taxation and minority interest		**1,366,991**	2,088,286	**372,173**
Adjustments for:				
Exchange differences arising on translation of foreign operations		**(16,100)**	7,589	**(4,383)**
Depreciation on property and equipment	**14**	**57,330**	50,252	**15,609**
Dividend income		**(11,076)**	(356)	**(3,016)**
Gain on sale of property and equipment		**-**	(396)	**-**
Allowance for doubtful loans and advances, net	**8**	**934,722**	295,300	**254,485**
Recovery of allowance for doubtful loans and advances	**8**	**(176,282)**	(151,937)	**(47,994)**
Impairment allowance on credit default swaps	**29**	**443,637**	66,060	**120,783**
Impairment allowance on investment securities	**29**	**296,070**	493,535	**80,607**
Net gain from sale of investment securities	**28**	**(78,565)**	(105,456)	**(21,390)**
Increase in fair value of investment properties	**12**	**(178,148)**	(295,361)	**(48,502)**
Share of profit of associates		**(171,557)**	-	**(46,708)**
Imputed interest on mandatory convertible securities	**17**	**23,953**	-	**6,521**
Employees' incentive plan benefit expense		**12,423**	-	**3,382**
Operating profit before changes in operating assets and liabilities		**2,503,398**	2,447,516	**681,567**
Decrease in due from banks		**251,905**	1,994,085	**68,583**
Increase in trading securities		**-**	(44,803)	**-**
Increase in net trading derivative financial instruments		**(813)**	(271,943)	**(221)**
Increase in loans and advances		**(34,338,965)**	(13,394,796)	**(9,349,024)**
Increase in other assets		**(476,269)**	(341,600)	**(129,668)**
(Decrease)/increase in due to banks		**(1,404,277)**	2,324,877	**(382,324)**
Increase in customers' deposits		**27,200,001**	13,763,968	**7,405,391**
Increase in other liabilities		**1,180,130**	611,712	**321,299**
Cash (used in)/from operations		**(5,084,890)**	7,089,016	**(1,384,397)**
Directors' remuneration paid		**(4,750)**	(4,750)	**(1,293)**
Overseas taxation refund/(paid)		**18,868**	(2,686)	**5,137**
Net cash (used in) /from operations		**(5,070,772)**	7,081,580	**(1,380,553)**
INVESTING ACTIVITIES				
Investments in associates		**(4,231,562)**	-	**(1,152,072)**
Dividend income		**11,076**	356	**3,016**
Purchase of investment securities		**(2,384,099)**	(1,141,700)	**(649,088)**
Proceeds from sale of investment securities		**1,301,316**	1,344,290	**354,292**
Purchase of property and equipment, net		**(154,798)**	(90,515)	**(42,145)**
Purchase of investment properties		**-**	(90,072)	**-**
Proceeds from sale of property and equipment		**-**	550	**-**
Exchange differences arising on translation of foreign operations		**(404,016)**	-	**(109,996)**
Net cash (used in)/from investing activities		**(5,862,083)**	22,909	**(1,595,993)**
FINANCING ACTIVITIES				
Net proceeds from short and medium term borrowings		**4,013,350**	10,569,551	**1,092,663**
Dividends paid to Bank's shareholders		**(400,000)**	(1,210,000)	**(108,903)**
Dividends paid to minority shareholders		**(128,509)**	(48,981)	**(34,987)**
Net proceeds from issue of mandatory convertible securities		**4,778,365**	-	**1,300,943**
Employees' incentive plan shares related payments		**(38,131)**	-	**(10,381)**
Net cash from financing activities		**8,225,075**	9,310,570	**2,239,335**
(Decrease)/increase in cash and cash equivalents		**(2,707,780)**	16,415,059	**(737,211)**
Cash and cash equivalents at the beginning of the year		**17,851,889**	1,436,830	**4,860,302**
Cash and cash equivalents at the end of the year	**32**	**15,144,109**	17,851,889	**4,123,091**

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

Notes to the consolidated financial statements
for the year ended December 31, 2008

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 (U.A.E.). 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 banking, commercial banking, investment banking, merchant banking, Islamic banking, brokerage and asset management activities through its network of thirty nine branches in the U.A.E., two branches in India, its subsidiaries, joint ventures and associates.

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

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

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency.

The US Dollar (US$) amounts are presented for the convenience of the reader.

2 Adoption of new and revised standards

The following three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current year are as follows:

- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

The adoption of these interpretations has not led to any material changes in the Bank's accounting policies.

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

2 Adoption of new and revised standards (continued)

New Standards and Amendments to Standards:

• IAS 1 (revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after January 1, 2009
• IAS 1 (revised) *Presentation of Financial Statements* and IAS 32 (revised) *Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after January 1, 2009
• IAS 23 (revised) *Borrowing Costs*	Effective for annual periods beginning on or after January 1, 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items*	Effective for annual periods beginning on or after July 1, 2009
• IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption*	Effective for annual periods beginning on or after January 1, 2009
• IFRS 2 (revised) *Share-based payment – Amendment relating to vesting conditions and cancellations*	Effective for annual periods beginning on or after January 1, 2009
• IFRS 3 (revised) *Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (revised) *Consolidated and Separate Financial Statements,* IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	Effective for annual periods beginning on or after July 1, 2009
• IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after January 1, 2009
• Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 *resulting from the May and October 2008 Annual Improvements to IFRS*	Effective for annual periods beginning on or after January 1, 2009

2 Adoption of new and revised standards (continued)

New Interpretations:

• IFRIC 13 *Customer Loyalty Programmes*	Effective for annual periods beginning on or after July 1, 2008
• IFRIC 15 *Agreements for the Construction of Real Estate*	Effective for annual periods beginning on or after January 1, 2009
• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Effective for annual periods beginning on or after October 1, 2008
• IFRIC 17 *Distributions of Non-cash Assets to Owners*	Effective for annual periods beginning on or after July 1, 2009
• IFRIC 18 *Transfers of Assets from Customers*	Effective for annual periods beginning on or after July 1, 2009

The directors anticipate the adoption of those standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

3 Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared on going concern basis and 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 (IFRIC) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated October 12, 2008, the Bank's exposure in Cash and balances with Central banks, Due from banks and Investment securities outside the U.A.E. have been presented under the respective notes.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. In addition, as explained below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged.

3 Significant accounting policies (continued)

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (collectively referred to as “the Bank”) as set out in Note 44. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. All significant inter-company balances, income and expense items are eliminated on consolidation.

Minority interest represents the portion of profit or loss for the year and net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately from the Bank’s equity therein, except for losses applicable to the minority interest in Abu Dhabi Risk and Treasury Solutions L.L.C., which are allocated against the interest of the Bank as stated in Note 44. Minority interest consist of minority shareholders’ share in the net equity of the subsidiaries.

3.4 Due from banks

Due from banks are stated at cost less any amounts written off and allowance 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 consolidated income statement.

3.5 Investments

Trading securities

Investments are considered as held for trading if they have been acquired principally for the purpose of selling in the near term, or if they form part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Trading securities are initially recognised and subsequently measured at fair value with any unrealised gain or loss arising from the change in fair value and realised gains and losses taken to the consolidated income statement. Interest income and dividend income are recorded in the consolidated income statement according to the terms of the contracts, or when the right to the payment has been established.

Held for trading securities have been reclassified to available for sale investments in accordance with the amendments made to International Accounting Standards (IAS) 39 issued on October 13, 2008.

3 Significant accounting policies (continued)

3.5 Investments (continued)

Investment securities

These are classified as follows:

- Held to maturity
- Available for sale

All investments are initially recognised at cost, being the fair value of consideration paid plus transaction costs that are directly attributable to the acquisition.

Held to maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments. Held to maturity investments are carried at amortised cost, using effective interest rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale

Investments not classified as either "held for trading" or "held to maturity" are classified as "available for sale".

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

Dividends on available for sale equity instruments are recognised in the consolidated income statement when the Bank's right to receive the dividends is established.

3 Significant accounting policies (continued)

3.6 Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

3.7 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3 Significant accounting policies (continued)

3.7 Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

3.8 Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

Loans and advances are stated at amortised cost less any amounts written off and allowance 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 consolidated 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.

3 Significant accounting policies (continued)

3.9 Impairment of financial assets

Financial assets, other than those that are held for trading, are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. When an advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Any subsequent increase in the fair value of an equity instrument against which an impairment loss was previously recognised cannot be reversed through the consolidated income statement, rather can be recognised directly in equity.

3.10 Impairment of tangible and intangible assets

At each consolidated balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible 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 assets 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 Significant accounting policies (continued)

3.10 Impairment of tangible and intangible assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Loan impairment

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower’s ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the borrower’s ability to meet payment obligations generally arise when:

a) Principal and interest are not serviced as per contractual terms; and,
b) When there is significant deterioration in the borrower’s financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or fair value of the collaterals if the loan is collateral dependent. Impairment loss is calculated as the difference between the loan’s carrying value and its present impaired value.

3 Significant accounting policies (continued)

3.11 Loan impairment (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans; and,
b) Retail loans with common features and which are not individually significant.

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolio with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the consolidated balance sheet date but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently considered impaired only when the minimum required number of payments under the new arrangements have not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3 Significant accounting policies (continued)

3.12 Collateral pending sale

The Bank occasionally acquires real estate and other collaterals in settlement of certain loans and advances. Such real estate and other collaterals 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 consolidated income statement.

3.13 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Bank enters into a variety of derivative financial instruments to manage the exposure to interest and foreign exchange rate risks, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased).

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

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

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3 Significant accounting policies (continued)

3.13 Derivative financial instruments (continued)

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.14 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development and fair value adjustments. Investment property is reflected at valuation based on fair value at the balance sheet date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

3.15 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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
Computer equipment and accessories	3 to 10 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 consolidated income statement.

3.16 Capital work in progress

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

3 Significant accounting policies (continued)

3.17 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.18 Customers' deposits and short and medium term borrowings

Customers' deposits and short and medium term borrowings are initially measured at fair value which is normally consideration received, net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

Wakala deposits

The Principal appoints the agent (the Bank) to invest its funds in Shari'ah compliant Investments. The Principal's funds will form part of the agent's treasury pool of funds that are invested by the agent in compliance with the rules and principles of Islamic Shari'ah as defined by the Fatwa and Shari'ah Supervisory Board of the agent. The agent will declare the profit rate to the customer in advance. The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Profit distribution on Wakala deposits

Profit distribution is made between deposit and saving account holders and shareholders according to the instructions of Fatwa and Shari'ah supervisory board:

Net income of all items of Mudaraba Pool at the end of each quarter, is the net profit distributable between the shareholders and depositors and saving account holders.

The share of unrestricted investment and saving account holders is calculated out from the net profit at the end of each quarter by adopting the separate investment account method after deducting the agreed upon and declared Mudaraba fee percentage.

3 Significant accounting policies (continued)

3.19 Mandatory convertible securities

The component parts of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity, and is not subsequently re-measured.

3.20 Employees' end of service benefits

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

3.21 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.22 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated balance sheet and are measured in accordance with accounting policies for investment securities. 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 interest rate yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated 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.

3 Significant accounting policies (continued)

3.23 Acceptances

Acceptances have been considered within the scope of IAS 39 *(Financial Instruments: Recognition and Measurement)* and are recognised as financial liability in the consolidated balance sheet with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.24 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.25 Recognition and de-recognition of financial instruments

The Bank recognises a financial asset or liability in its consolidated balance sheet only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership, or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

3.26 Offsetting of financial assets and liabilities

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

3.27 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

3 Significant accounting policies (continued)

3.28 Taxation

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

3.29 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 accounted for on the date the transaction arises. 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.

Gain or loss on trading and investment securities comprises all gains and losses from changes in the fair value of held for trading securities and gains or losses on disposal of investment securities. Gain or loss on disposal of trading and held to maturity investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available for sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividend revenue from investments is recognised when the Bank’s right to receive payments has been established.

3.30 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 are revalued at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement.

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

3 Significant accounting policies (continued)

3.31 Trade and settlement date accounting

The "regular way" purchases 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 consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in the consolidated statement of changes in equity for assets classified as available for sale.

3.32 Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with central banks, due from banks and due to banks which are maturing within three months.

3.33 Dividends

Dividends are recognised in equity in the year in which they are declared. Dividends declared after balance sheet date are disclosed as proposed dividends.

3.34 Employees' incentive plan shares

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated balance sheet date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of loans and advances, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of loans and advances, investment securities, investment in associates and fair values of derivative financial instruments are summarised as follows:

4.1 Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

4.1.1 Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

4.1.2 Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.1 Loans and advances (continued)

4.1.2 Collectively assessed loans (continued)

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the consolidated balance sheet date.

4.2 Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent, practical models use only observable data, however; areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4.3 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

4.4 Impairment of investments in associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.4 Impairment of investments in associates (continued)

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or

ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

4.5 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt.

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

5 Cash and balances with Central Banks

	2008 AED'000	2007 AED'000
Cash on hand	**509,628**	367,461
Balances with Central Banks	**3,151,381**	2,290,127
Certificate of deposits with Central Bank	**250,000**	13,000,000
	3,911,009	15,657,588

The geographical concentration is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**3,890,266**	15,623,787
Outside the U.A.E.	**20,743**	33,801
	3,911,009	15,65

6 Deposits and balances due from banks

	2008 AED'000	2007 AED'000
Current and demand deposits	**143,247**	60,366
Murabaha placements	**586,000**	157,093
Placements	**16,799,175**	5,812,905
	17,528,422	6,030,364

The geographical concentration is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**6,910,198**	2,996,974
Outside the U.A.E.	**10,618,224**	3,033,390
	17,528,422	6,030,364

7 Trading securities

	2008	2007
	AED'000	AED'000
Fair value:		
Quoted fund	**-**	122,278
Mutual funds	**-**	155
	-	122,433

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

During the year, the trading securities were reclassified to available for sale investment. This reclassification was made in accordance with the recent amendments to IAS 39 issued on October 13, 2008 with respect to reclassification of financial assets. The fair value of the trading securities at the date of reclassification was AED 116,382 thousand and at December 31, 2008 was AED 27,390 thousand. The fair value loss on these securities at December 31, 2008 amounting to AED 88,992 thousand (2007- AED 45,270 thousand have been recognised in the consolidated income statement) have been recognised under cumulative changes in fair values in the consolidated statement of changes in equity.

8 Loans and advances, net

	2008	2007
	AED'000	AED'000
Overdrafts (Retail and Corporate)	**22,376,570**	14,021,744
Retail loans	**11,376,290**	7,122,069
Corporate loans	**74,777,891**	53,033,990
Credit cards	**1,138,426**	685,182
Islamic financing	**46,188**	-
Other facilities	**1,355,735**	1,963,054
	111,071,100	76,826,039
Less: Allowance for impairment	**(2,258,130)**	(1,149,957)
	108,812,970	75,676,082

8 Loans and advances, net (continued)

During the year, the Bank has changed the risk classification of loans and advances to comply with the requirements of Central Bank of United Arab Emirates and Basel II guidelines as follows:

Risk Category	**2008**	2007
Performing loans	**Less than 30 days**	Less than 90 days
Other loans exceptionally monitored	**Between 30 and 90 days**	Between 90 and 180 days
Non performing loans	**Over 90 days**	Over 180 days

The risk classification of loans and advances are as follows:

	2008 **AED'000**	2007 AED'000
Performing loans	**104,615,487**	75,635,272
Other loans exceptionally monitored	**5,195,330**	135,352
Non performing loans	**1,260,283**	1,055,415
	111,071,100	76,826,039
Less: Allowance for impairment	**(2,258,130)**	(1,149,957)
	108,812,970	75,676,082

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 545,400 thousand (2007 – AED 609,480 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in the previous years which were previously indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against the interest free loan to Government (Note 16).

Collaterals

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Bank accepts guarantees mainly from well reputed local or international banks, well established local or multinational corporates and high net-worth private individuals. Management is currently in the process of estimating the fair value of these collaterals. The carrying value of these collaterals at December 31, 2008 approximates to AED 77,922,451 thousand (2007 - AED 55,015,564 thousand).

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

8 Loans and advances, net (continued)

Movement of the individual and collective impairment allowance on loans and advances is as follows:

	2008			2007		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual Impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	**716,492**	**433,465**	**1,149,957**	659,229	323,653	982,882
Charge for the year	**292,079**	**1,086,280**	**1,378,359**	177,861	117,439	295,300
Recoveries	**(176,282)**	**-**	**(176,282)**	(151,937)	-	(151,937)
Net amounts written back/(off)	**105,193**	**(191,921)**	**(86,728)**	27,160	(7,855)	19,305
Currency translation	**(6,743)**	**(433)**	**(7,176)**	4,179	228	4,407
At December 31	**930,739**	**1,327,391**	**2,258,130**	716,492	433,465	1,149,957

Collective impairment allowance charge for the year includes an amount of AED 443,637 thousand (Note 34) towards credit default swaps.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

8 Loans and advances, net (continued)

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

	2008			2007		
	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector						
Agriculture	**13,743**	**-**	**13,743**	14,563	-	14,563
Energy	**505,545**	**181,377**	**686,922**	215,039	701,989	917,028
Trading	**2,198,587**	**-**	**2,198,587**	2,165,285	17,662	2,182,947
Contractor finance	**4,115,205**	**165,285**	**4,280,490**	3,501,241	183,011	3,684,252
Development & construction	**16,189,232**	**-**	**16,189,232**	9,220,774	-	9,220,774
Real Estate investment	**6,785,561**	**-**	**6,785,561**	7,514,026	-	7,514,026
Transport	**3,713,724**	**104,270**	**3,817,994**	1,271,095	1,286,206	2,557,301
Personal	**8,105,591**	**1,617**	**8,107,208**	3,248,275	965,455	4,213,730
Personal – Retail loans	**14,331,441**	**-**	**14,331,441**	7,489,191	6,660	7,495,851
Personal – Loans against securities trading	**14,427,247**	**-**	**14,427,247**	10,479,289	-	10,479,289
Government	**3,137,112**	**-**	**3,137,112**	1,735,910	-	1,735,910
Financial institutions	**12,203,923**	**1,336,473**	**13,540,396**	10,170,348	2,111,759	12,282,107
Manufacturing	**1,705,157**	**206,382**	**1,911,539**	1,441,070	1,147,421	2,588,491
Services	**17,939,048**	**2,944,920**	**20,883,968**	8,206,479	3,120,556	11,327,035
Others	**722,930**	**36,730**	**759,660**	576,005	36,730	612,735
	106,094,046	**4,977,054**	**111,071,100**	67,248,590	9,577,449	76,826,039
Less: Impairment allowance			**(2,258,130)**			(1,149,957)
Total			**108,812,970**			75,676,082

9 Derivative financial instruments

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

The Bank uses the following derivative financial instruments for both hedging and non-hedging purposes.

9 Derivative financial instruments (continued)

Forward currency transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Option transactions

Foreign currency and Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

9 Derivative financial instruments (continued)

The fair values of derivative financial instruments held are set out below.

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2008		
Derivatives held for trading		
Forward foreign exchange contracts	**1,036,452**	**1,044,644**
Interest rate swaps and forward rate agreements	**3,743,250**	**3,812,645**
Options	**457,996**	**442,632**
Futures	**13,224**	**11,773**
Commodity forwards	**558,356**	**534,015**
Energy swaps	**393,408**	**392,991**
	6,202,686	**6,238,700**
Derivatives held for hedging	**-**	**125,266**
	6,202,686	**6,363,966**

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2007		
Derivatives held for trading		
Forward foreign exchange contracts	126,498	171,556
Interest rate swaps and forward rate agreements	1,599,877	1,641,097
Options	414,199	387,675
Futures	1,826	1,216
Commodity forwards	228,794	206,477
Energy swaps	5,248	5,248
	2,376,442	2,413,269
Derivatives held for hedging	691,800	-
	3,068,242	2,413,269

The derivatives held for hedging consist of interest rate swaps and cross currency swaps. These derivatives are treated as fair value hedges.

9 Derivative financial instruments (continued)

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 financial institutions and corporates which are of good credit rating.

Derivatives held or issued for trading purposes

The Bank's trading activities mostly relate to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial 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, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. 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 objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

10 Investment securities

	2008			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	170,746	170,746
Collateralised debt obligations (CDOs)	-	-	575,007	575,007
Impairment allowance	-	-	(385,395)	(385,395)
Sub total	-	-	360,358	360,358
Equity instruments	89,620	-	326	89,946
Bonds	984,501	107,839	-	1,092,340
Mutual funds	71,283	-	-	71,283
Government securities	-	-	281,509	281,509
Total Quoted	1,145,404	107,839	642,193	1,895,436
Unquoted:				
Floating rate notes (FRNs)	-	-	165,285	165,285
Equity instruments	352,795	-	94	352,889
Impairment allowance	(10,309)	-	(14,905)	(25,214)
Sub total	342,486	-	150,474	492,960
Bonds	1,034,341	-	-	1,034,341
Mutual funds	-	-	57	57
Total Unquoted	1,376,827	-	150,531	1,527,358
Total Available for sale investments	2,522,231	107,839	792,724	3,422,794

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

10 Investment securities (continued)

	2007			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	568,142	568,142
Collateralised debt obligations (CDOs)	-	-	649,720	649,720
Impairment allowance	-	-	(315,882)	(315,882)
Sub total	-	-	901,980	901,980
Equity instruments	128,055	-	344	128,399
Bonds	1,141,626	95,534	-	1,237,160
Mutual funds	-	-	26,599	26,599
Government securities	-	-	174,207	174,207
Total Quoted	1,269,681	95,534	1,103,130	2,468,345
Unquoted:				
Floating rate notes (FRNs)	-	-	180,205	180,205
Collateralised debt obligations (CDOs)	-	-	36,730	36,730
Impairment allowance	-	-	(62,630)	(62,630)
Sub total	-	-	154,305	154,305
Equity instruments	246,286	-	-	246,286
Others	30,625	-	-	30,625
Total Unquoted	276,911	-	154,305	431,216
Total Available for sale investments	1,546,592	95,534	1,257,435	2,899,561
Held to maturity : Quoted				
Floating rate notes (FRNs)	-	-	183,650	183,650
Impairment allowance	-	-	(115,023)	(115,023)
	-	-	68,627	68,627
Total investment securities	1,546,592	95,534	1,326,062	2,968,188

The fair value of held to maturity investments at December 31, 2007 approximates its carrying value less impairment allowance.

10 Investment securities (continued)

The movement in investment securities for the year 2008 is as follows:

	Available for sale AED'000	**Held to maturity AED'000**	**Total AED'000**
Fair value at January 1, 2008	**2,899,561**	**68,627**	**2,968,188**
Additions	**2,477,760**	**-**	**2,477,760**
Disposals and fair value adjustments	**(1,671,989)**	**(53,887)**	**(1,725,876)**
Investments written off during the year	**-**	**(14,740)**	**(14,740)**
Impairment allowance	**(282,538)**	**-**	**(282,538)**
Fair value at December 31, 2008	**3,422,794**	**-**	**3,422,794**

The movement in investment securities for the year 2007 is as follows:

	Available for sale AED'000	Held to maturity AED'000	Total AED'000
Fair value at January 1, 2007	3,438,634	262,110	3,700,744
Additions	1,141,500	-	1,141,500
Disposals and fair value adjustments	(1,302,061)	(78,460)	(1,380,521)
Impairment allowance	(378,512)	(115,023)	(493,535)
Fair value at December 31, 2007	2,899,561	68,627	2,968,188

The movement in impairment allowance is as follows:

	2008 AED'000	2007 AED'000
Balance at January 1	**493,535**	-
Provided on Available for sale investments	**296,070**	378,512
Provided on Held to maturity investments	**-**	115,023
Reversed on disposal of Available for sale investments	**(13,532)**	-
Investments written off	**(365,464)**	-
Balance at December 31	**410,609**	493,535

10 Investment securities (continued)

The investment securities include Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), and Cashflow CDOs which are dependent on the performance of collateral located outside U.A.E., primarily investment grade corporate credit assets in the U.S.A. and Western Europe.

As at December 31, 2008, the nominal value and fair value of these securities amounted to AED 1,243,259 thousand and AED 911,038 thousand respectively. These securities have been negatively impacted by the global financial crisis that stemmed from the U.S.A. subprime situation, recent corporate credit events in both the U.S.A. and Europe, negative market sentiment which significantly widened credit default spreads and re-priced credit risk, as well as ongoing liquidity shortages. As a result, the Bank has made collective impairment allowance amounting to AED 400,300 thousand against the total above exposure.

The impairment allowance have been estimated by the Banks' management based on the present market and the expected economic conditions of the underlying investments.

The Bank has appointed two independent advisors "Prytania" and "BlackRock" to act as asset managers and advisors to the portfolio of structured investments. In addition, during the year, the Bank contracted for a full documentation and structure review of all these assets.

These independent advisors advise in the timely restructuring of some exposures and on divestments and provide the assessments of the realisable economic value of these securities.

The independent advisors have used a combination of quantitative and qualitative approaches to assess the economic value and potential expected losses, if any, on investment securities. Evaluation models use several scenario runs with varying assumptions on price volatility and varying magnitudes of economic downturns. Models also vary collateral assumptions based on shifting risk elements to assess the potential severity of loss on the underlying portfolio. Loss breakpoints for particular tranches of risk represented by individual investments are also assessed under different scenarios.

10 Investment securities (continued)

The specification of models, the valuation fields and inputs used in assessments of economic value are adjusted for market dynamics according to the underlying asset class and nature of the collateral supporting the investments. Parameters for loan-backed transactions including material movements in loan prices on a weekly basis greater than a specified amount or a specified percent are captured to recalibrate values, such as a loan that has gone below the 25th percentile within all the loan prices across its industry. In addition, parameter measures specific for CDO structures include proximity to coverage tests, assessments for underlying collateral that either a particular position has (i) increased the percentage of loans in stress (60 +/- day delinquencies, foreclosure, credit default swaps movements) by a specified amount or (ii) reached a threshold level of stress. Additional quantitative analysis include cash flow modelling, predicting the probability of any diversion test (over-collateralization or interest-coverage) being breached.

Other qualitative measures include the potential implications of rating changes, such as forced triggers, on the investments, as well as rating changes on assets in the underlying portfolio.

The maximum exposure to credit risk on investment securities is limited to the carrying value of these investments. The Bank monitors the credit ratings of the counterparties with whom the investments are placed on a regular basis.

11 Investments in associates

Name of associate	**2008 AED'000**	2007 AED'000
RHB Capital Berhad	**4,327,529**	-
Abu Dhabi Finance P.J.S.C.	**100,000**	-
Carrying value at December 31	**4,427,529**	-

Details of Bank's investment in associates are as follows:

	Name of associate	**Principal activities**	**Country of incorporation**	**Ownership Interest**
(a)	RHB Capital Berhad	Wholesale, retail and islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	25%
(b)	Abu Dhabi Finance P.J.S.C.	Mortgage finance.	U.A.E.	20%

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

11 Investment in associates (continued)

(a) On May 14, 2008 the Bank acquired through its wholly owned subsidiary ADCB Holdings (Malaysia) Sdn Berhad a 25% equity stake in RHB Capital Berhard, Malaysia ("Associate").

The cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the Associate recognised at the date of the acquisition amounting to AED 2,048,390 thousand was identified as goodwill and included in the carrying value of investment in associate. Management has assessed the total carrying value of investment in associate for impairment as detailed in Note 4.4 and determined that no impairment losses are required in the current year.

The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at December 31, 2008 amounted to AED 2,233,736 thousand.

The Bank's share of profit of associate was appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRS.

(b) During the year, the Bank contributed to the extent of 20% of equity in Abu Dhabi Finance P.J.S.C., United Arab Emirates ("Associate").

The latest publicly available financial information in respect of Bank's associates are as of September 30, 2008 and summarised as follows:

	AED'000
Total assets	**111,394,998**
Total liabilities	**103,359,124**
Net assets	**8,035,874**
Total interest and other operating income	**4,778,119**
Total profit for the period	**907,543**

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

12 Investment properties

	2008 **AED'000**	2007 AED'000
At January 1	**445,730**	-
Additions	**-**	90,076
Transfer in from property and equipment, net	**8,614**	60,293
Increase in fair value of investment properties	**178,148**	295,361
At December 31	**632,492**	445,730

The fair value of the Bank's investment properties has been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation is December 31, 2008. All the investment properties of the Bank are located within the U.A.E.

13 Other assets

	2008 **AED'000**	2007 AED'000
Interest receivable	**775,711**	664,718
Withholding taxation	**17,591**	37,937
Advance paid for purchase of investment	**-**	93,662
Prepayments	**145,437**	126,867
Clearing receivables	**70,562**	180,448
Acceptances	**887,669**	493,120
Others	**313,152**	155,969
	2,210,122	1,752,721

Acceptances arise when the Bank guarantees payments against documents drawn under the letters of credit.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

14 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2007	442,326	30,940	79,093	171,520	43,348	767,227
Exchange difference	-	593	751	50	-	1,394
Additions during the year	20,328	668	4,394	6,444	61,192	93,026
Transfers	15,855	24,935	8,822	13,158	(62,770)	-
Transfer to expenses	-	-	-	-	(2,511)	(2,511)
Transfer to investment properties	(64,833)	-	-	-	-	(64,833)
Disposals	(500)	-	-	-	-	(500)
At January 1, 2008	**413,176**	**57,136**	**93,060**	**191,172**	**39,259**	**793,803**
Exchange difference	(1,040)	-	(934)	(79)	-	(2,053)
Additions during the year	1,367	317	11,651	3,515	140,313	157,163
Transfers	6,148	8,054	9,636	28,712	(52,550)	-
Transfer to expenses	-	-	-	-	(2,365)	(2,365)
Transfer to investment properties	(24,821)	-	-	-	-	(24,821)
At December 31, 2008	**394,830**	**65,507**	**113,413**	**223,320**	**124,657**	**921,727**
Accumulated depreciation						
At January 1, 2007	115,975	14,499	51,313	73,416	-	255,203
Exchange difference	-	22	674	37	-	733
Charge for the year	17,633	3,111	9,341	20,167	-	50,252
Transfers	(4,540)	-	-	-	-	(4,540)
Eliminated on disposals	(346)	-	-	-	-	(346)
At January 1, 2008	**128,722**	**17,632**	**61,328**	**93,620**	**-**	**301,302**
Exchange difference	(11)	-	(825)	(48)	-	(884)
Charge for the year	14,970	5,585	12,080	24,695	-	57,330
Transfer to investment properties	(16,207)	-	-	-	-	(16,207)
At December 31, 2008	**127,474**	**23,217**	**72,583**	**118,267**	**-**	**341,541**
Carrying amount						
At December 31, 2008	**267,356**	**42,290**	**40,830**	**105,053**	**124,657**	**580,186**
At December 31, 2007	284,454	39,504	31,732	97,552	39,259	492,501

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

15 Due to banks

	2008 AED'000	2007 AED'000
Current and demand deposits	**998,342**	227,825
Deposits - banks	**5,906,921**	5,370,551
	6,905,263	5,598,376

16 Customers' deposits

	2008 AED'000	2007 AED'000
By category :		
Call and demand deposits	**14,653,828**	13,347,838
Savings deposits	**1,230,648**	1,114,235
Time deposits	**64,438,702**	38,866,846
Long term government deposits (Note 8)	**545,400**	609,480
Islamic product related deposits	**2,115,062**	-
Euro commercial papers	**1,377,181**	3,222,421
	84,360,821	57,160,820
By sector :		
Retail	**15,489,461**	17,755,863
Corporate	**38,690,102**	25,298,035
Government	**30,181,258**	14,106,922
	84,360,821	57,160,820

The Euro commercial papers are issued globally with the majority issued in the United Kingdom and other countries of Europe.

Notes to the consolidated financial statements
for the year ended December 31, 2008 (continued)

16 Customers' deposits (continued)

Islamic related product deposits include the following:

	2008	2007
	AED'000	AED'000
Product		
Mudaraba savings and deposits	**158,697**	-
Wakala deposits	**1,937,984**	-
Wadiah	**18,381**	-
	2,115,062	-

Profit distributed to Wakala deposit holders during the year amounted to AED 27,865 thousand (2007 – Nil).

17 Mandatory convertible securities

During the year, the Bank issued mandatory convertible securities (“MCS”) with nominal value amounting to AED 4,800,000 thousand that are convertible into new ordinary registered shares at the end of the third year from the date of issue. The U.A.E. Central Bank approved that the MCS can be considered for Tier 1 Capital adequacy regulation requirements and accordingly included in capital adequacy computation (Note 45). Interest is payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, up and until the conversion date.

The proceeds received from issue of MCS have been split between a liability component arising from interest payments and an equity component, representing the residual attributable to the future delivery of the equity of the Bank, as follows:

	2008 **AED’000**
Proceeds of issue	**4,800,000**
Issue costs	**(21,635)**
Net proceeds received	**4,778,365**
Liability component on initial recognition	**(144,482)**
Equity component on initial recognition	**4,633,883**
Liability component at initial recognition	**144,482**
Interest expense for the year	**168,106**
Interest paid during the year	**(144,153)**
	168,435

The interest charged for the year is calculated by applying an effective interest rate of 7.80% p.a. The liability component is measured at amortised cost.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

18 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2008 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	-	126,489	126,489
	Euro (EUR)	256,366	-	-	256,366
	Hong Kong Dollar (HKD)	-	47,394	94,787	142,181
	Japanese Yen (JPY)	-	202,917	-	202,917
	Pound Sterling (GBP)	-	2,677,158	-	2,677,158
	Slovak Koruna (SKK)	-	-	127,629	127,629
	South African Rand (ZAR)	-	-	39,083	39,083
	Swiss Franc (CHF)	-	1,550,225	-	1,550,225
	Singapore Dollar (SGD)	-	369,749	-	369,749
	Turkish Lira (TRL)	-	-	88,527	88,527
	UAE Dirham (AED)	4,160,000	-	1,753,000	5,913,000
	US Dollar (US$)	238,745	3,783,190	73,460	4,095,395
		4,655,111	8,630,633	2,302,975	15,588,719
Syndicated loans	US Dollar (US$)	1,819,972	3,474,658	6,978,700	12,273,330
	Euro (EUR)	820,372	-	-	820,372
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	1,469,200
		7,295,455	12,105,291	10,750,875	30,151,621
Fair value adjustment of cross currency swap					414,927
					30,566,548

Included in short and medium term borrowings is a carrying amount of AED 8,280,246 thousand (2007 – AED 7,380,698 thousand) which has been hedged using cross currency swaps.

18 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2007 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	145,732	-	161,924	307,656
	Euro (EUR)	-	270,829	-	270,829
	Hong Kong Dollar (HKD)	47,083	-	141,249	188,332
	Japanese Yen (JPY)	-	-	164,113	164,113
	New Zealand Dollar (NZD)	42,751	-	-	42,751
	Pound Sterling (GBP)	-	-	3,669,970	3,669,970
	Slovak Koruna (SKK)	-	-	120,828	120,828
	South African Rand (ZAR)	-	-	53,985	53,985
	Swiss Franc (CHF)	170,046	490,518	981,037	1,641,601
	Turkish Lira (TRL)	-	-	116,665	116,665
	UAE Dirham (AED)	1,200,000	2,765,000	1,753,000	5,718,000
	US Dollar (US$)	183,650	3,985,205	36,730	4,205,585
		1,789,262	7,511,552	7,199,501	16,500,315
Syndicated loan	US Dollar (US$)	-	3,673,000	5,509,500	9,182,500
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	1,469,200
		1,789,262	11,184,552	14,178,201	27,152,015
Fair value adjustment of cross currency swap					218,249
					27,370,264

18 Short and medium term borrowings (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rates at 31 December 2008 are as follows:

Currency	Within 1 year	1-3 years	Over 3 years
AUD	-	-	3 months AUD-BBSW plus 30 basis points
EUR	3 months EURIBOR plus 12 basis points	-	-
HKD	-	3 months HIBOR offer rate plus 35 basis points	3 months HIBOR offer rate plus 29 basis points
JPY	-	Fixed rate of 1.66% p.a.	-
GBP	-	Fixed rate of 5.625% p.a.	-
SKK	-	-	3 months BRIBOR plus 11 basis points
ZAR	-	-	3 months JIBAR plus 41 basis points
CHF	-	3 months LIBOR plus 10 basis points & Fixed rate of 2.76% p.a	-
SGD	-	Fixed rate of 4.08% p.a	-
TRY	-	-	Fixed rate of 12.75% p.a.
AED	3 months EIBOR plus 0 to 52 basis points & 6 months EIBOR plus 8 basis points	-	Fixed rate of 6% p.a.
US$	3 months LIBOR plus 24 to 30 basis points	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 30 to 35 basis points	Fixed rate of 5.3875% p.a

Interest on the syndicated loans are payable in monthly coupons in arrears with 25 basis points to 27.5 basis points over 1 month LIBOR, quarterly coupons in arrears with 27.5 basis points to 110 basis points over 3 months LIBOR and yearly coupons in arrears with 115 basis points over 12 months EURIBOR. The Bank has option to roll over the syndicated loan for a further period of two years from the date of maturity. Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 month LIBOR.

The subordinated floating rate notes were obtained from financial institutions outside of the U.A.E. and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (Note 45) if these are not redeemed during 2011. This has been approved by the Central Bank of the United Arab Emirates.

The Bank also has an unsecured standby facility of US$ 175,000 thousand (December 31, 2007 – US$ 850,000 thousand) from a consortium of banks with a drawdown period of one year.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

19 Other liabilities

	2008 AED'000	2007 AED'000
Interest payable	**673,782**	547,742
Employees' end of service benefits	**109,906**	67,610
Accounts payable and other creditors	**503,968**	77,143
Clearing payables	**271,194**	347,627
Deferred income	**108,863**	104,123
Acceptances	**887,669**	493,120
Others	**892,643**	622,012
	3,448,025	2,259,377

Acceptances arise when the Bank guarantees payments against documents drawn under the letters of credit.

20 Share capital

	Authorised	**Issued and fully paid**	
		2008	2007
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**4,810,000**	**4,810,000**	4,000,000

	2008		2007	
	Number of shares	**AED'000**	Number of shares	AED'000
As of January 1	**4,000,000,000**	**4,000,000**	4,000,000,000	4,000,000
Bonus shares issued during the year	**810,000,000**	**810,000**	-	-
As of December 31	**4,810,000,000**	**4,810,000**	4,000,000,000	4,000,000

During 2006, Abu Dhabi Investment Authority's holding of 64.841% of the Bank's issued and fully paid up share capital was transferred to Abu Dhabi Investment Council by Law No.16 of 2006. The shareholders of the Bank approved this share transfer at the extra ordinary general assembly meeting of the Bank held on March 18, 2007.

The shareholders in the Annual General Meeting held on April 21, 2008, approved the proposed distribution of dividends for the year 2007 amounting to AED 1,210,000 thousand made up of AED 400,000 thousand (representing 10% of capital) in cash and AED 810,000 thousand representing 20.25% of the paid up capital) in the form of bonus shares.

21 Statutory and other 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.

Legal reserve

In accordance with the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) and Article 84 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

In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year is transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. 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.

22 Employees' incentive plan shares

During the year, the Bank established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank which are purchased at a price defined in the Plan and held by ACB LTIP (IOM) Limited, a consolidated entity, until vesting date. The granted shares vest over a period of 3 years that starts on the grant date.

Under the above plan, the Bank granted its key management employees shares with a fair value of AED 38,131 thousand as at the grant date, which is recognised in the consolidated income statement on a straight line basis over the 3 years vesting period.

23 Proposed dividends

For the year ended December 31, 2008, the Board of Directors have proposed to pay cash dividends of AED 481,000 thousand representing 10% of the paid up capital (2007 : cash dividends of AED 400,000 thousand and bonus shares of AED 810,000 thousand representing 10% and 20.25% of the paid up capital respectively). This is subject to the approval of the shareholders in the Annual General Meeting.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

24 Interest income

	2008 AED'000	2007 AED'000
Loans and advances to banks	**608,279**	960,059
Loans and advances to customers	**5,194,926**	4,824,081
Investment securities	**142,705**	208,084
	5,945,910	5,992,224

In 2007, interest income from investment securities included an amount of AED 13,086 thousand generated from Held to Maturity investments which are carried at amortised cost. No such income was included in 2008 as these investments were either disposed of or written off during the year.

25 Interest expense

	2008 AED'000	2007 AED'000
Deposits from banks	**279,612**	372,426
Deposits from customers	**1,820,881**	2,059,636
Debt securities issued and subordinated liabilities	**1,168,835**	1,271,747
Interest on mandatory convertible securities	**168,106**	-
	3,437,434	3,703,809

26 Net fee and commission income

	2008 AED'000	2007 AED'000
Fee and commission income		
Retail banking fee	**462,649**	310,995
Corporate banking fee	**320,468**	354,229
Investment banking fee	**170,141**	96,214
Brokerage fee	**31,109**	37,612
Fees from trust and other fiduciary activities	**52,589**	83,236
Other fee	**17,579**	15,676
Total fee and commission income	**1,054,535**	897,962
Fee and commission expenses	**(72,441)**	(24,002)
Net fee and commission income	**982,094**	873,960

Notes to the consolidated financial statements
for the year ended December 31, 2008 (continued)

27 Net gains from dealing in foreign currencies

Net gains from dealing in foreign currencies include net trading income, gains and losses from spot and forward contracts, options, futures, and exchange differences arising on translation of monetary foreign currency assets and liabilities of the Bank.

28 Net gain from trading and investment securities

	2008	2007
	AED'000	AED'000
(Loss)/gain from trading securities	**(10,687)**	45,295
Gain from sale of available for sale investments	**89,252**	60,161
	78,565	105,456

29 Impairment allowance on financial assets

	2008	2007
	AED'000	AED'000
Impairment allowance on doubtful loans and advances, net of recoveries (Note 8)	**758,440**	143,363
Impairment allowance on investment securities (Note 10)	**296,070**	493,535
Impairment allowance on credit default swaps (Note 8)	**443,637**	66,060
	1,498,147	702,958

30 Earnings per share

Basic and Diluted

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

30 Earnings per share (continued)

	2008	2007
Net profit for year attributable to the equity holders of the Bank (AED'000) (a)	**1,236,592**	1,987,518
Weighted average number of shares in issue throughout the year (000's)	**4,810,000**	4,810,000
Less: Weighted average number of shares resulting from Employees' incentive share plan	**(1,018)**	-
Weighted average number of equity shares in issue during the year (000's) (b)	**4,808,982**	4,810,000
Basic and Diluted earnings per share (AED) (a)/(b)	**0.26**	0.41

The potential conversion of mandatory convertible securities (Note 17) to ordinary shares would increase the Bank's earnings per share for the year. Accordingly, the mandatory convertible securities were not included in the calculation of diluted earnings per share because they are anti-dilutive for the year.

31 Taxation

Taxation resulting from Indian branches' operations and overseas subsidiaries is calculated as per the taxation laws applicable in India and respective overseas subsidiaries.

32 Cash and cash equivalents

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

	2008 AED'000	2007 AED'000
Cash and balances with Central Banks	**3,911,009**	15,657,588
Deposits and balances due from banks	**17,528,422**	6,030,364
Due to banks	**(6,905,263)**	(5,598,376)
	14,534,168	16,089,576
Less: Deposits and balances due from banks and cash and balances with Central Banks – maturity more than 3 months	**(488,168)**	(740,073)
Add: Due to banks – maturity more than 3 months	**1,098,109**	2,502,386
	15,144,109	17,851,889

33 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.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated balance sheet are as follows:

	2008 AED'000	2007 AED'000
Loans and advances :		
To Directors	**116,697**	106,035
To Key Managers	**36,018**	10,886
	152,715	116,921
Customers' deposits :		
From Directors	**14,291**	18,077
From Major Shareholders	**6,611,400**	4,497,667
From Key Managers	**8,345**	6,863
	6,634,036	4,522,607
Mandatory convertible securities :		
From Major Shareholders	**800,000**	-
Investments in funds managed by the Bank – at fair values:		
Held for trading securities	**-**	122,278
Available for sale investments	**71,283**	30,625
	71,283	152,903
Irrevocable commitments and contingencies:		
To Directors	**62,276**	76,291

33 Related party transactions (continued)

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

	2008	2007
	AED'000	AED'000
Interest, fee and commission income:		
- Directors	**1,702**	2,775
- Key Managers	**588**	128
- Trust activities	**126,376**	70,407
- Gain on disposal of available for sale investments	**-**	26,585
	128,666	99,895
Interest expense:		
- Directors	**229**	404
- Major Shareholders	**66,729**	166,151
- Key Managers	**84**	12
	67,042	166,567

Remuneration of key management staff during the year was as follows:

	2008	2007
	AED'000	AED'000
Short term benefits	**50,675**	36,102

Remuneration of Directors is accrued and paid as an appropriation from the net profit of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in the U.A.E. This amount is included in the short term benefits shown above.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

34 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2008 AED'000	2007 AED'000
Commitments on behalf of customers		
Letters of credit	**8,682,852**	5,893,930
Guarantees	**15,989,632**	14,760,040
Commitments to extend credit – Revocable	**6,144,487**	10,512,268
Commitments to extend credit – Irrevocable	**18,324,032**	21,066,159
Credit default swaps	**2,395,094**	3,221,685
	51,536,097	55,454,082
Others		
Commitments for future capital expenditure	**505,590**	56,980
Commitments to invest in investment securities	**119,579**	93,580
	52,161,266	55,604,642

Credit-related commitments

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

Commitments to extend credit represent contractual commitments to make loans and advances 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 and guarantees 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 floating rates.

Credit default swap means a security with a risk level and pricing based on the risk of credit default by one or more underlying security issuers. Credit default contracts include credit default swaps, credit default index contracts, credit default options and credit default basket options. Credit default contracts are also used as part of the mechanism behind many collateralised debt obligations; in these cases, the contracts may have unique covenants that exclude company events, such as a debt restructuring as a "credit event".

The Bank's total exposure in credit default swaps net of provisions amounted to AED 2,395,094 thousand. During the year, an amount of AED 443,637 thousand (Note 8) has been provided (2007 – AED 66,060 thousand) towards expected calls against impaired credit default swaps based on the independent advisors' reports and recommendations as discussed in Note 10.

35 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, deposits and current accounts for the Bank's customers, brokerage and fund managing activities and (ii) Investment Banking, which involves the management of the Bank's investment portfolio, dealing in derivatives and 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**	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000	**2008 AED'000**	2007 AED'000
Operating income	**3,990,443**	3,320,481	**427,721**	479,393	**4,418,164**	3,799,874
Segment result and profit from operations	**1,885,205**	2,214,145	**(490,349)**	(125,859)	**1,394,856**	2,088,286
Minority interest	**-**	-	**(121,881)**	(97,412)	**(121,881)**	(97,412)
Net profit before distribution to depositors and income tax	**1,885,205**	2,214,145	**(612,230)**	(223,271)	**1,272,975**	1,990,874
Distribution to depositors	**(27,865)**	-	**-**	-	**(27,865)**	-
Net profit before income tax	**1,857,340**	2,214,145	**(612,230)**	(223,271)	**1,245,110**	1,990,874
Income tax expense unallocated					**(8,518)**	(3,356)
Net profit/(loss) for the year					**1,236,592**	1,987,518
Other information						
Segment assets	**110,616,779**	77,875,154	**37,111,431**	28,338,695	**147,728,210**	106,213,849
Segment liabilities	**100,066,856**	66,331,380	**31,746,202**	28,470,726	**131,813,058**	94,802,106
Equity					**15,915,152**	11,411,743
Total liabilities and equity					**147,728,210**	106,213,849
Capital expenditure incurred during the year, net	**154,560**	90,253	**238**	262	**154,798**	90,515
Depreciation expense during the year	**53,195**	45,884	**4,135**	4,368	**57,330**	50,252

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

35 Segmental information (continued)

Secondary segment information

Although the Bank is organised primarily into business segments, the Bank operates in other geographic markets. The United Arab Emirates, which is designated as Domestic, represents the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India and through its subsidiaries and associate outside the U.A.E. 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**	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000	**2008 AED'000**	2007 AED'000
Operating income	**4,349,508**	3,770,430	**68,656**	29,444	**4,418,164**	3,799,874
Profit before distribution to depositors and taxation	**1,336,061**	2,071,750	**58,795**	16,536	**1,394,856**	2,088,286
Distribution to depositors	**(27,865)**	-	**-**	-	**(27,865)**	-
Income tax expense	**-**	-	**(8,518)**	(3,356)	**(8,518)**	(3,356)
Minority interest	**(121,881)**	(97,412)	**-**	-	**(121,881)**	(97,412)
Net profit for the year	**1,186,315**	1,974,338	**50,277**	13,180	**1,236,592**	1,987,518
Segment assets	**142,945,127**	105,691,414	**4,783,083**	522,435	**147,728,210**	106,213,849
Segment liabilities	**126,710,658**	94,295,870	**5,102,400**	506,236	**131,813,058**	94,802,106
Capital expenditure incurred during the year, net	**152,529**	90,291	**2,269**	224	**154,798**	90,515

36 Credit risk frame work, measurement, monitoring and policies

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 counterparties and continually assessing the creditworthiness of counterparties. 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 counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties 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.

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

The Risk Management Committee is responsible for sanctioning high value credits and the Credit Policy Committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance Division.

36 Credit risk frame work, measurement, monitoring and policies (continued)

Management of credit risk (continued)

For details of the composition of the loans and advances portfolio refer to Note 8. Information on credit risk relating to derivative instruments is provided in Note 9.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review and are approved by the Board of Directors, when considered necessary. These limits are set with respect to product, country and industry sector.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits. Actual exposures against limits are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for funds advances, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

36 Credit risk frame work, measurement, monitoring and policies (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank’s overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

36 Credit risk frame work, measurement, monitoring and policies (continued)

Risk limit control and mitigation policies (continued)

The Bank's maximum exposure to credit risk excluding collateral and other credit enhancements, was as follows:

	2008			2007		
	Carrying value AED'000	**Off balance sheet items AED'000**	**Maximum credit exposure AED'000**	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000
Deposits and balances due from banks	**17,528,422**	**-**	**17,528,422**	6,030,364	-	6,030,364
Loans and advances, net	**108,812,970**	**-**	**108,267,570**	75,676,082	-	75,066,602
Investment securities – unquoted, available for sale and held to maturity	**1,527,358**	**119,579**	**1,646,937**	499,843	93,580	593,423
Derivative financial instruments	**6,202,686**	**-**	**6,202,686**	3,068,242	-	3,068,242
Investments in associates	**4,427,529**	**-**	**4,427,529**	-	-	-
Other assets	**2,210,122**	**-**	**2,121,969**	1,752,721	-	1,534,335
Guarantees	**-**	**15,989,632**	**15,638,688**	-	14,760,040	14,418,720
Letters of credit	**-**	**8,682,852**	**8,664,919**	-	5,893,930	5,869,749
Irrevocable commitments to extend credit	**-**	**18,324,032**	**18,324,032**	-	21,066,159	21,066,159
Credit default swaps	**-**	**2,395,094**	**2,395,094**	-	3,221,685	3,221,685
Total	**140,709,087**	**45,511,189**	**185,217,846**	87,027,252	45,035,394	130,869,279

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

37 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:

	2008			2007		
	Assets AED'000	**Liabilities and equity AED'000**	**Off-balance sheet items AED'000**	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000
Geographic region						
Domestic (U.A.E.)	**119,549,784**	**97,214,138**	**41,237,010**	91,496,033	67,979,894	44,240,783
Other G.C.C. countries	**6,800,823**	**5,571,332**	**522,572**	4,654,149	4,137,191	2,460,698
Other Arab countries	**621,025**	**297,961**	**55,551**	215,489	512,994	38,659
Asia	**7,474,614**	**1,335,147**	**1,924,896**	3,390,105	947,632	2,071,567
Europe	**10,772,557**	**36,310,351**	**1,693,002**	3,211,082	32,413,998	5,008,896
U.S.A.	**1,551,108**	**2,011,635**	**2,151,793**	785,786	(117,651)	1,450,453
Rest of the world	**958,299**	**4,987,646**	**4,576,442**	2,461,205	339,791	333,586
Total	**147,728,210**	**147,728,210**	**52,161,266**	106,213,849	106,213,849	55,604,642
Industry sector						
Commercial & business	**51,547,264**	**30,943,977**	**34,989,068**	31,108,257	33,411,681	41,959,920
Personal	**36,865,896**	**14,653,680**	**5,877,133**	28,960,312	15,257,406	2,915,572
Public sector	**9,541,626**	**14,441,746**	**1,864,215**	917,028	768,762	106,827
Government	**4,718,135**	**29,086,916**	**411,978**	1,740,981	14,241,482	49,960
Banks and financial institutions	**45,055,289**	**58,601,891**	**9,018,872**	43,487,271	42,534,518	10,572,363
Total	**147,728,210**	**147,728,210**	**52,161,266**	106,213,849	106,213,849	55,604,642

38 Interest rate risk framework, measurement and monitoring

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with a floating interest rate. A significant portion of the Bank's loans and advances, due from banks, customer deposits, due to banks, short and medium term borrowings and mandatory convertible securities fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of investments in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's Treasury, which uses derivative instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

The Bank uses simulation modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities are floating rate, deposits and loans generally reprice simultaneously, providing a natural hedge which reduces interest rate exposure. Moreover, majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

38 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2008 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	0.94%	200,000	50,000	-	-	-	3,661,009	**3,911,009**
Deposits and balances due from banks	2.70%	15,455,037	36,730	8,500	-	23,189	2,004,966	**17,528,422**
Loans and advances, net	5.64%	90,927,860	17,097,601	292,088	2,753,551	-	(2,258,130)	**108,812,970**
Derivative financial instruments	-	3,756,419	942,178	540,499	750,202	213,388	-	**6,202,686**
Investment securities	4.23%	1,973,508	493,577	13,158	428,376	-	514,175	**3,422,794**
Investments in associates	-	-	-	-	-	-	4,427,529	**4,427,529**
Investment properties	-	-	-	-	-	-	632,492	**632,492**
Other assets	-	-	-	-	-	-	2,210,122	**2,210,122**
Property and equipment, net	-	-	-	-	-	-	580,186	**580,186**
Total assets		112,312,824	18,620,086	854,245	3,932,129	236,577	11,772,349	**147,728,210**
Liabilities and equity								
Due to banks	3.07%	5,807,155	760,932	23,959	241,477	71,740	-	**6,905,263**
Customers' deposits	2.79%	71,669,081	7,962,073	4,453,128	273,784	2,755	-	**84,360,821**
Mandatory convertible securities	7.80%	168,435	-	-	-	-	-	**168,435**
Short and medium term borrowings	3.66%	23,632,955	3,021,136	3,497,530	-	-	414,927	**30,566,548**
Derivative financial instruments	-	4,770,139	693,590	40,871	659,553	199,813	-	**6,363,966**
Other liabilities	-	-	-	-	-	-	3,448,025	**3,448,025**
Equity	-	-	-	-	-	-	15,915,152	**15,915,152**
Total liabilities and equity		106,047,765	12,437,731	8,015,488	1,174,814	274,308	19,778,104	**147,728,210**
On-balance sheet gap		6,265,059	6,182,355	(7,161,243)	2,757,315	(37,731)	(8,005,755)	-
Off-balance sheet gap		(4,183,797)	(1,231,461)	-	4,274,302	1,140,956	-	-
Total interest rate sensitivity gap		2,081,262	4,950,894	(7,161,243)	7,031,617	1,103,225	(8,005,755)	-
Cumulative interest rate sensitivity gap		2,081,262	7,032,156	(129,087)	6,902,530	8,005,755	-	-

Included in investment securities are interest bearing amounts of AED 281,509 thousand relating to the Bank's overseas branches with effective rate of 7.54%.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

38 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2007 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	3.76	12,500,000	-	500,000	-	-	2,657,588	15,657,588
Deposits and balances due from banks	5.10	5,768,634	41,418	159,946	-	10,209	50,157	6,030,364
Trading securities	-	-	-	-	-	-	122,433	122,433
Loans and advances, net	7.24	57,886,983	16,874,363	639,133	1,608,945	-	(1,333,342)	75,676,082
Derivative financial instruments	-	2,061,168	524,296	75,372	343,274	64,132	-	3,068,242
Investment securities	6.47	1,605,689	669,361	684,595	8,543	-	-	2,968,188
Investment properties	-	-	-	-	-	-	445,730	445,730
Other assets	-	-	-	-	-	-	1,752,721	1,752,721
Property and equipment, net	-	-	-	-	-	-	492,501	492,501
Total assets		79,822,474	18,109,438	2,059,046	1,960,762	74,341	4,187,788	106,213,849
Liabilities and equity								
Due to banks	4.52	3,358,583	1,732,258	252,949	26,761	-	227,825	5,598,376
Customers' deposits	3.96	39,506,947	4,712,421	3,564,579	81,769	11,760	9,283,344	57,160,820
Short and medium term borrowings	5.48	20,393,771	2,588,274	4,169,970	-	-	218,249	27,370,264
Derivative financial instruments	-	1,728,191	245,728	80,879	278,625	79,846	-	2,413,269
Other liabilities	-	-	-	-	-	-	2,259,377	2,259,377
Equity	-	-	-	-	-	-	11,411,743	11,411,743
Total liabilities and equity		64,987,492	9,278,681	8,068,377	387,155	91,606	23,400,538	106,213,849
On-balance sheet gap		14,834,982	8,830,757	(6,009,331)	1,573,607	(17,265)	(19,212,750)	-
Off-balance sheet gap		(3,101,704)	(2,241,568)	325,517	1,587,772	3,429,983	-	-
Total interest rate sensitivity gap		11,733,278	6,589,189	(5,683,814)	3,161,379	3,412,718	(19,212,750)	-
Cumulative interest rate sensitivity gap		11,733,278	18,322,467	12,638,653	15,800,032	19,212,750	-	-

Included in investment securities and due to banks are interest bearing amounts of AED 174,207 thousand and AED 18,964 thousand respectively relating to the Bank's overseas branches with effective rates of 7 % and 7.4%, respectively.

39 Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

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, the Bank's 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.

Liquidity risk management process

The Assets and Liabilities Committee (ALCO) of the Bank sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The Bank's liquidity management process, as carried out within the Bank and monitored by Bank's Treasury, includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Bank has set an internal ceiling on the Advances to Deposits Ratio (ADR) that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter bank placements with a remaining life of more than three months and;
- the amount of stable resource comprising of "free own funds", a remaining life of more than six months, "stable customer deposits", and standby liquidity facilities.

39 Liquidity risk framework, measurement and monitoring (continued)

Liquidity risk management process (continued)

The above definitions are broadly in line with the Central Bank of United Arab Emirates definitions of the Advances to Deposits Ratio, except that the statutory definition does not take into account the standby liquidity facilities.

The Bank also has unsecured standby facilities of USD 175,000 thousand (2007 – USD 850,000 thousand) to fund its liquidity needs (Note 18).

Funding approach

Sources of liquidity are regularly monitored by a separate team in the Bank's Treasury to maintain a wide diversification by currency, geography, provider, product and term.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated 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 year end is based on contractual repayment arrangements, as follows:

Notes to the consolidated financial statements
for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2008 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	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	**3,911,009**	3,861,009	50,000	-	-	-
Deposits and balances due from banks	**17,528,422**	17,090,255	36,730	8,500	369,749	23,188
Loans and advances, net	**108,812,970**	33,674,172	1,410,958	10,754,132	15,701,487	47,272,221
Derivative financial instruments	**6,202,686**	271,594	118,498	86,797	2,365,662	3,360,135
Investment securities	**3,422,794**	183,728	48,653	306,113	717,318	2,166,982
Investments in associates	**4,427,529**	-	-	-	-	4,427,529
Investment properties	**632,492**	-	-	-	-	632,492
Other assets	**2,210,122**	2,210,122	-	-	-	-
Property and equipment, net	**580,186**	-	-	-	-	580,186
Total assets	**147,728,210**	57,290,880	1,664,839	11,155,542	19,154,216	58,462,733
Liabilities and Equity						
Due to banks	**6,905,263**	5,807,154	435,873	23,959	241,477	396,800
Customers' deposits	**84,360,821**	62,468,078	8,614,566	6,205,635	3,758,753	3,313,789
Mandatory convertible securities	**168,435**	-	-	-	168,435	-
Short and medium term borrowings	**30,566,548**	1,486,825	403,286	5,405,344	12,520,218	10,750,875
Derivative financial instruments	**6,363,966**	451,299	123,006	60,569	2,469,145	3,259,947
Other liabilities	**3,448,025**	3,448,025	-	-	-	-
Equity	**15,915,152**	588,603	-	-	-	15,326,549
Total liabilities and equity	**147,728,210**	74,249,984	9,576,731	11,695,507	19,158,028	33,047,960
Liquidity gap	-	(16,959,104)	(7,911,892)	(539,965)	(3,812)	25,414,773
Cumulative liquidity gap	-	(16,959,104)	(24,870,996)	(25,410,961)	(25,414,773)	-

Maturities of other assets and liabilities have been determined on the basis of the period remaining at the consolidated balance sheet date to the contractual maturity date.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2007 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	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	15,657,588	15,157,588	-	500,000	-	-
Deposits and balances due from banks	6,030,364	5,290,291	586,802	143,063	-	10,208
Trading securities	122,433	-	-	-	122,433	-
Loans and advances, net	75,676,082	24,854,325	2,726,356	2,654,441	9,950,542	35,490,418
Derivative financial instruments	3,068,242	132,773	208,215	149,426	380,064	2,197,764
Investment securities	2,968,188	64,711	99,486	93,134	1,396,309	1,314,548
Investment properties	445,730	-	-	-	-	445,730
Other assets	1,752,721	1,752,721	-	-	-	-
Property and equipment, net	492,501	-	-	-	-	492,501
Total assets	106,213,849	47,252,409	3,620,859	3,540,064	11,849,348	39,951,169
Liabilities and Equity						
Due to banks	5,598,376	3,095,990	2,168,859	-	-	333,527
Customers' deposits	57,160,820	48,790,290	3,964,780	3,564,579	829,411	11,760
Short and medium term borrowings	27,370,264	453,815	170,046	1,383,650	11,184,552	14,178,201
Derivative financial instruments	2,413,269	165,382	205,379	111,843	439,636	1,491,029
Other liabilities	2,259,377	2,259,377	-	-	-	-
Equity	11,411,743	1,288,575	-	-	-	10,123,168
Total liabilities and equity	106,213,849	56,053,429	6,509,064	5,060,072	12,453,599	26,137,685
Liquidity gap	-	(8,801,020)	(2,888,205)	(1,520,008)	(604,251)	13,813,484
Cumulative liquidity gap	-	(8,801,020)	(11,689,225)	(13,209,233)	(13,813,484)	-

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

40 Foreign exchange risk framework, measurement and monitoring

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. At December 31, the Bank had the following significant net exposures denominated in foreign currencies:

	2008 AED'000 equivalent long/(short)	2007 AED'000 equivalent long/(short)
US $	**(7,312,885)**	(1,346,463)
Indian Rupee	**73,252**	73,854
Omani Riyal	**2,057**	1,319
Pound Sterling	**2,593**	(1,803)
Euro	**9,382**	2,348
Bahraini Dinar	**(191)**	(445)
Saudi Riyal	**23**	(1,082)
Japanese Yen	**712**	(1,308)
Australian Dollar	**(8,329)**	(2,958)
Swiss Franc	**8**	899
Malaysian Ringgit	**4,280,870**	(10)
Qatari Riyal	**1,512**	492
Others	**(336)**	(603)

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

40 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2008:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	3,475,617	414,395	10	-	-	-	20,987	**3,911,009**
Deposits and balances due from banks	4,681,545	9,881,498	2,703,500	3,740	140,144	2	117,993	**17,528,422**
Loans and advances, net	81,600,530	23,440,224	465,262	186,625	5,765	-	3,114,564	**108,812,970**
Derivative financial instruments	947,797	3,758,501	54,339	-	1,257,452	-	184,597	**6,202,686**
Investment securities	1,837,837	1,182,414	57,778	-	-	-	344,765	**3,422,794**
Investments in associates	100,000	-	-	-	-	4,327,529	-	**4,427,529**
Investment properties	632,492	-	-	-	-	-	-	**632,492**
Other assets	1,105,230	860,247	15,352	16,835	-	13,402	199,056	**2,210,122**
Property and equipment, net	575,278	-	-	-	-	-	4,908	**580,186**
Total assets	**94,956,326**	**39,537,279**	**3,296,241**	**207,200**	**1,403,361**	**4,340,933**	**3,986,870**	**147,728,210**
Liabilities								
Due to banks	2,982,590	2,897,531	607,836	-	71,892	-	345,414	**6,905,263**
Customers' deposits	55,127,064	25,002,964	2,682,781	38,654	167,256	12	1,342,090	**84,360,821**
Mandatory convertible securities	168,435	-	-	-	-	-	-	**168,435**
Short and medium term borrowings	5,913,000	18,252,851	1,076,738	1,550,225	2,677,158	-	1,096,576	**30,566,548**
Derivative financial instruments	246,234	6,117,732	-	-	-	-	-	**6,363,966**
Other liabilities	2,529,765	527,436	99,360	24,317	36,797	1,287	229,063	**3,448,025**
Total liabilities	**66,967,088**	**52,798,514**	**4,466,715**	**1,613,196**	**2,953,103**	**1,299**	**3,013,143**	**131,813,058**
Off balance sheet items								
Letters of credit	3,070,397	4,629,476	226,373	1,628	7,439	-	747,539	**8,682,852**
Guarantees	10,638,819	4,010,136	383,922	2,018	23,334	-	931,403	**15,989,632**
Commitments to extend credit	21,544,501	2,710,870	87,236	178	357	-	125,377	**24,468,519**
Credit default swaps	-	2,395,094	-	-	-	-	-	**2,395,094**
	35,253,717	13,745,576	697,531	3,824	31,130	-	1,804,319	**51,536,097**
Commitments for future capital expenditure	505,590	-	-	-	-	-	-	**505,590**
Commitments to invest in investment securities	-	119,579	-	-	-	-	-	**119,579**
Total off balance sheet items	**35,759,307**	**13,865,155**	**697,531**	**3,824**	**31,130**	**-**	**1,804,319**	**52,161,266**

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

40 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2007:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	Other '000	Total AED'000
Assets							
Cash and balances with Central Banks	15,279,263	344,388	4	-	-	33,933	15,657,588
Deposits and balances due from banks	274,905	3,981,778	219,810	995	68,863	1,484,013	6,030,364
Trading securities	122,278	155	-	-	-	-	122,433
Loans and advances, net	47,470,978	25,256,533	832,842	185,888	11,544	1,918,297	75,676,082
Derivative financial instruments	282,168	2,518,008	31,356	-	60,848	175,862	3,068,242
Investment securities	364,230	2,166,767	208,943	-	-	228,248	2,968,188
Investment properties	445,730	-	-	-	-	-	445,730
Other assets	503,827	-	293,826	-	-	955,068	1,752,721
Property and equipment, net	486,416	-	-	-	-	6,085	492,501
Total assets	65,229,795	34,267,629	1,586,781	186,883	141,255	4,801,506	106,213,849
Liabilities							
Due to banks	1,365,259	3,751,894	255,461	64,544	8,522	152,696	5,598,376
Customers' deposits	36,891,269	15,142,719	910,449	328,225	925,369	2,962,789	57,160,820
Short and medium term borrowings	5,936,249	14,857,285	270,829	1,641,601	3,669,970	994,330	27,370,264
Derivative financial instruments	274,673	1,884,902	23,734	-	60,745	169,215	2,413,269
Other liabilities	1,498,504	680,525	14,996	22,635	42,717	-	2,259,377
Total liabilities	45,965,954	36,317,325	1,475,469	2,057,005	4,707,323	4,279,030	94,802,106
Off balance sheet items							
Letters of credit	2,330,703	2,037,672	339,622	12,046	4,738	1,169,149	5,893,930
Guarantees	8,274,515	5,094,112	535,594	3,518	33,028	819,273	14,760,040
Commitments to extend credit	25,711,293	5,303,299	342,427	-	-	221,408	31,578,427
Credit default swaps	-	3,221,685	-	-	-	-	3,221,685
	36,316,511	15,656,768	1,217,643	15,564	37,766	2,209,830	55,454,082
Commitments for future capital expenditure	56,980	-	-	-	-	-	56,980
Commitments to invest in investment securities	-	93,580	-	-	-	-	93,580
Total off balance sheet items	36,373,491	15,750,348	1,217,643	15,564	37,766	2,209,830	55,604,642

41 Market risk framework, measurement and monitoring

Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, foreign exchange rates and market prices of equity.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities. The Bank limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Bank actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Management of market risk

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed fortnightly by ALCO.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Treasury and Derivatives Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to Senior Management, the Board of Directors and Regulators.

Market risk management is overseen by the Risk Management Committee and performs the following primary functions:

- Establishment of a comprehensive market risk policy framework;
- Independent measurement, monitoring and control of market risk;
- Setting up, approval and monitoring of limits.

41 Market risk framework, measurement and monitoring (continued)

Risk identification and classification

The Risk Management Committee identifies and classifies market risk for the Bank and puts in place risk management policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Market risk is broadly classified into trading and non-trading categories:

Trading risk includes positions that are held by the Bank's trading unit whose main business strategy is to trade or make markets. Unrealised gains and losses in these positions are generally reported in principal transactions under trading income.

Non-trading risk includes securities and other assets held for longer-term investment in securities and derivatives used to manage the Bank's asset/liability exposures. Unrealised gains and losses in these positions are generally not reported in principal transactions revenue.

Trading risk

Market risk which includes interest rate risk, foreign exchange, equities and commodities and other trading risks involve the potential decline in net income or financial condition due to adverse changes in market rates.

Non-trading risk

Non-trading risk arises from execution of the Bank's core business strategies, products and services to its customers, and the strategic positions the Bank undertakes to risk-manage exposures.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk, the Bank uses various matrices, both statistical and non-statistical, including:

- Non-statistical risk measures; and
- Sensitivity analysis

Non-statistical risk measures

Non-statistical risk measures, other than stress testing, include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Bank's market risk exposure.

41 Market risk framework, measurement and monitoring (continued)

The Bank uses non-statistical scenario based risk limits to monitor and control market risk on a day to day basis.

The scenarios used for interest rate risk assess the change in the portfolio to parallel and non-parallel rate shocks. The non-parallel rate shocks simulate steepening, bending and twisting interest rate scenarios.

Portfolio sensitivity for major interest rate risk currencies (parallel rate shock) is analysed separately for the Bank's trading and non-trading portfolio as follows:

Market risk - Trading portfolio

The following table depicts the sensitivity to a reasonable possible change in interest rates with other variables held constant, and the impact on the Bank's consolidated income statement or equity from trading portfolio.

The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at December 31, 2008, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2008 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap.

Interest rate risk

Parallel Rate Moves in AED interest rates (AED '000):

	+200 bps	**+100 bps**	**-100 bps**	**-200 bps**
December 31, 2008	**(4,605)**	**(7,168)**	**20,185**	**57,299**
December 31, 2007	5	(1,416)	11,860	37,041

Parallel Rate Moves in US$ interest rates (AED '000):

	+200 bps	**+100 bps**	**-100 bps**	**-200 bps**
December 31, 2008	**3,648**	**7,894**	**(25,388)**	**(73,833)**
December 31, 2007	(3,139)	3,389	(16,065)	(48,317)

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

41 Market risk framework, measurement and monitoring (continued)

Market risk - Trading portfolio (continued)

Currency wise

The following table depicts portfolio sensitivity for foreign exchange:

Price Shock in Percentage (AED '000)

December 31, 2008		**+10%**	**+5%**	**-5%**	**-10%**
	AUD	**929**	**417**	**(94)**	**239**
	EUR	**(48)**	**(24)**	**24**	**48**
	GBP	**(10)**	**(5)**	**5**	**10**
	JPY	**(130)**	**(65)**	**65**	**130**
	US$	**(4,566)**	**(2,369)**	**2,960**	**6,354**

Price Shock in Percentage (AED '000):

December 31, 2007		+10%	+5%	-5%	-10%
	AUD	27	14	(14)	(27)
	EUR	59	29	(29)	(59)
	GBP	-	-	-	-
	JPY	190	95	(95)	(190)
	US$	(8,248)	(4,320)	4,775	10,081

Market risk – Non-trading portfolio

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact of the Bank's consolidated income statement from Bank's non-trading portfolio.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Change in basis points	**Sensitivity of net interest income**	**Sensitivity of equity**
		AED'000	**AED'000**
December 31, 2008	**+25**	**55,148**	**(29,996)**
	-25	**(55,148)**	**29,996**
December 31, 2007	+25	38,420	(33,292)
	-25	(38,420)	33,292

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

41 Market risk framework, measurement and monitoring (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

42 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 73,243 thousand (2007 – AED 74,311 thousand) held in India are subject to the exchange control regulations of India.

43 Trust activities

As at December 31, 2008, the net asset value of the funds under the management of the Bank amounted to AED 1,137,801 thousand (2007 – AED 1,980,805 thousand).

44 List of subsidiaries

The entities (other than the associates) have been treated as subsidiaries for the purpose of consolidation as the Bank has control over their financial and operating policies, has invested all or a majority of capital of these entities and is entitled to all or a majority of their profits/losses. The Bank's interest, held directly or indirectly, in the subsidiaries is as follows:

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	U.A.E.	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C. (refer note (i) below)	51%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advice.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

44 List of subsidiaries (continued)

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Finance and holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Finance and holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Finance and holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	Under Incorporation	U.A.E.	Islamic banking.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Bank UK Limited(*)	100%	2008	United Kingdom	Process agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Infrastructure investment.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)	100%	2006	U.A.E.	Investment in commercial projects.

(*) These subsidiaries are dormant.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

44 List of subsidiaries (continued)

(i) The Bank shares its profit in Abu Dhabi Risk and Treasury Solutions L.L.C. in accordance with a separate agreement with the minority shareholders, as follows:

	Bank	Minority shareholders
Up to year 2011	51%	49%
Year 2012 to year 2015	75%	25%

The agreement also provides that the minority shareholders will not share any losses which are incurred as a consequence of the failure of a counterparty to perform its obligation to the subsidiary, Abu Dhabi Risk and Treasury Solutions L.L.C.

45 Capital adequacy and capital management

Capital management process

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Central Bank requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above a minimum of 10%.

The U.A.E. Central Bank vide its notice 2545/2007 dated July 31, 2007 advised all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from December 31, 2007. For credit and market risks, the Central Bank has issued draft guidelines for implementation of Standardised approach. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

45 Capital adequacy and capital management (continued)

The ratios calculated in accordance with Basel I and Basel II are as follows:

	Basel II		Basel I	
	2008	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000
Tier 1 capital				
Share capital	**4,810,000**	4,000,000	**4,810,000**	4,000,000
Statutory and legal reserves	**2,627,979**	2,380,661	**2,627,979**	2,380,661
General and contingency reserves	**2,150,000**	2,150,000	**2,150,000**	2,150,000
Foreign currency translation reserve	**(392,022)**	8,253	**(392,022)**	8,253
Proposed dividends	**481,000**	1,210,000	**481,000**	1,210,000
Retained earnings	**1,522,417**	1,548,598	**1,522,417**	1,548,598
Minority interest in equity of subsidiaries	**107,603**	114,231	**107,603**	114,231
Employees' incentive plan shares	**(25,708)**	-	**(25,708)**	-
Mandatory convertible securities (Note 17)	**4,802,318**	-	**4,802,318**	-
Less: Investments in associates (50%)	**(2,213,765)**	-	**(2,213,765)**	-
	13,869,822	11,411,743	**13,869,822**	11,411,743
Tier 2 capital				
Collective impairment allowance on loans and advances	**1,327,391**	433,465	**1,327,391**	433,465
Subordinated floating rate notes (Note 18)	**1,469,200**	1,469,200	**1,469,200**	1,469,200
Less: Investments in associates (50%)	**(2,213,765)**	-	**(2,213,765)**	-
	582,826	1,902,665	**582,826**	1,902,665
Total regulatory capital	**14,452,648**	13,314,408	**14,452,648**	13,314,408
Risk-weighted assets:				
On-balance sheet	-	-	**114,152,139**	80,607,717
Off-balance sheet	-	-	**16,399,817**	15,077,265
Credit risk	**114,377,569**	84,010,377	-	-
Market risk	**4,383,896**	4,239,932	-	-
Operational risk	**5,966,913**	5,449,379	-	-
Total risk-weighted assets	**124,728,378**	93,699,688	**130,551,956**	95,684,982
Capital adequacy ratio	**11.59%**	14.21%	**11.07%**	13.91%

45 Capital adequacy and capital management (continued)

In accordance with the U.A.E. Central Bank guidelines, the collective impairment allowance on loans and advances is adjusted from the carrying value of loans and advances for computing the risk weighted assets. The capital adequacy ratio under these guidelines was 10.16% (2007 – 13.46%).

46 Subsequent event

Subsequent to the year-end, the Bank has agreed to issue Tier 1 capital notes (the “Notes”) to the Government of Abu Dhabi, with a principal amount of AED 4,000,000 thousand. The issuance of these Notes has been approved by the Bank’s Board of Directors vide Resolution No 03/01/2009 in their meeting held on February 4, 2009.

The Notes constitute direct, unsecured, subordinated obligations of the Issuer and rank pari passu without any preference among themselves. The rights and claims of the Noteholders will be subordinated to the claims of Senior Creditors. The Notes are non-voting, non-cumulative perpetual securities, and are callable by the Issuer subject to certain conditions.

The capital adequacy ratio per Basel I and Basel II when the issue of these Notes is considered at the balance sheet date would have been 14.13% and 14.8% respectively.

47 Comparative figures

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

48 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 4, 2009.