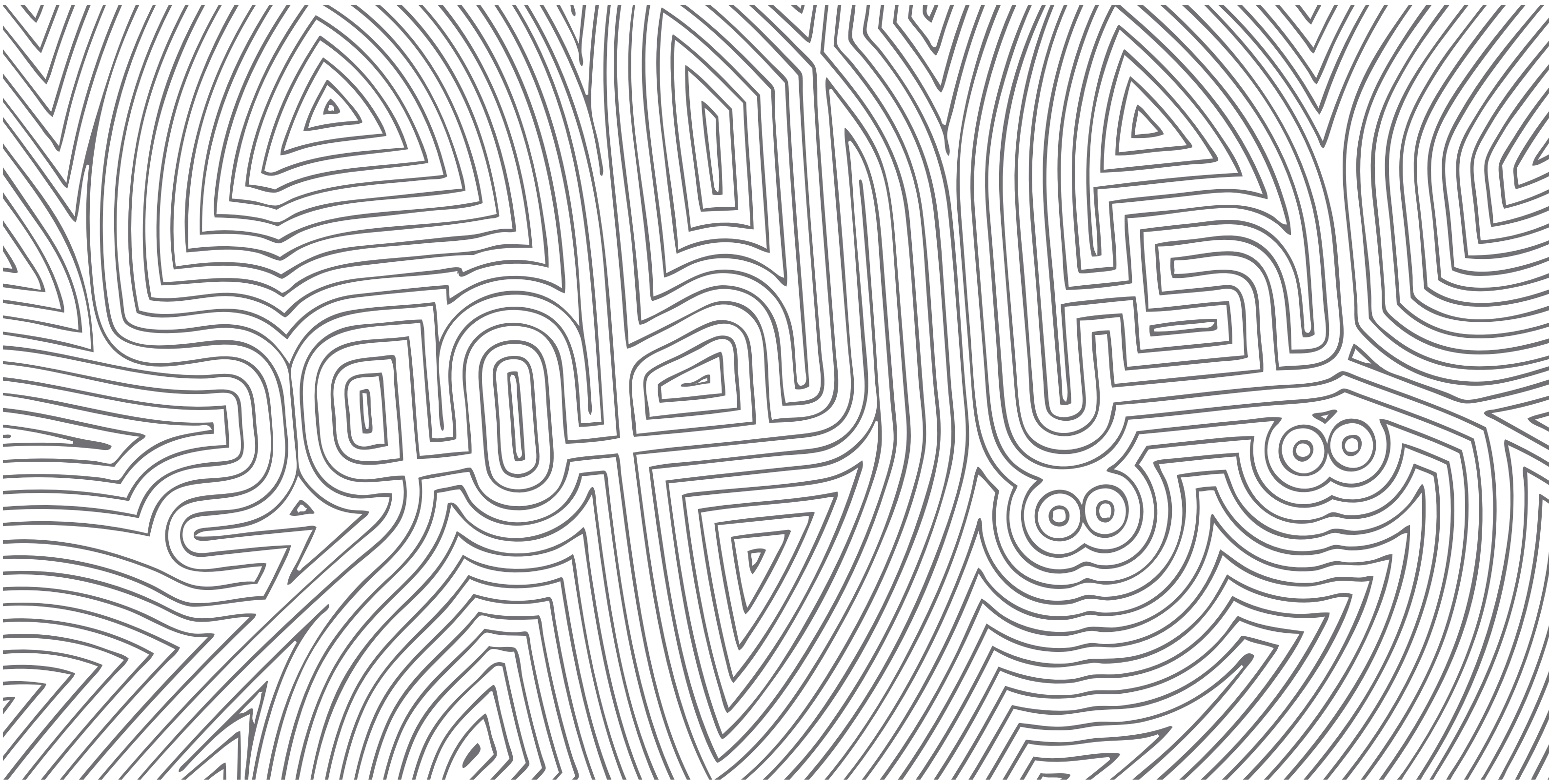
ABU DHABI COMMERCIAL BANK

ANNUAL REPORT 2009



25th ANNIVERSARY

بنك أبوظبي التجاري

ADCB

LONG LIVE AMBITION®


25th ANNIVERSARY
SKEA Silver Winner 2009
It's what gets us out of bed in the morning.
It's why we dream up projects and inventions.
It's why we compete.
It's why people with money don't stop trying to make more money.
It's why the world's tallest building never stays that way for long.
It's why the length of a country's coastline is negotiable.
It's why world records are hard to break.
And why they eventually do get broken.
Winners have it. Losers have it. Quitters had it.
Without it, history books would be filled with the mundane.
Without it, possibilities would stay that way.
Without it, we'd still be living in the Stone Age.
It's why we're never satisfied. And it's why we like it that way.
It frees us from asking "Why?" and empowers us to ask "Why not?"
It is the root of all progress.
And it's why we're the only creatures on the planet
who have a hand in our own evolution.
LONG LIVE AMBITION.
يحيا الطموح
بنك أبوظبي التجاري
ADCB

H. H. Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

H. H. Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi


25th ANNIVERSARY
AMBITION.
IT'S THE REASON
GOOD ENOUGH NEVER IS.

CONTENTS

Eissa Mohamed Al Suwaidi
Chairman

« ADCB continued to invest in its brand recognition, customer service, staff (including attracting and developing talented young UAE Nationals), products, operations and information technology.

Long Live Ambition

Chairman's letter

On behalf of ADCB's Board of Directors, I am pleased to introduce ADCB's annual report for 2009.

2009 was another very challenging year for the banking sector both in the UAE and internationally. Although the effects of the global financial crisis began to subside, during 2009 the region experienced increased borrower defaults and reduced demand for loans. Amongst other things, this resulted in the much-increased loan-loss provisions apparent in ADCB's accounts for the year.

Nevertheless, the Board was pleased with the performance of ADCB's core businesses, and with the Bank's many other achievements. These achievements are set out in detail in the Chief Executive Officer's report, but highlights include:

- Strong revenue growth
- Strong improvement in liquidity ratios. In particular, the Bank raised $1 billion from investors in the first ever Rule 144A compliant bond issue by a UAE based bank in the USA
- Aggressive management and restructuring of doubtful credits
- Maintenance and improvement of the ADCB consumer and wholesale banking franchises
- Rapid growth in the Bank's Islamic subsidiary, Abu Dhabi Commercial Islamic Finance PJSC
- Several awards and milestones including: Sheikh Khalifa Excellency Award (Silver Category), GCC Best Retail Bank (2008 year, Asian Banker), Human Resources Development Award for Emiratisation, Hawkamah – UAB Corporate Governance Award (Best in UAE)

In addition, ADCB continued to invest in its brand recognition, customer service, staff (including attracting and developing talented young UAE Nationals), products, operations and information technology.

At the end of 2009, the Board and management met to revise ADCB's strategy; the Board is confident that the new strategy is suitable and appropriate to steer ADCB in its next phase of development.

I would like to express ADCB's and its Board's sincerest gratitude and appreciation for the continued government support supplied to the banking sector. This would never have been achieved but for the wise leadership of his Highness Sheikh Khalifa bin Zayed Al Nahyan (President of UAE) and his Highness Sheikh Mohamed bin Zayed Al Nahyan (Crown Prince of Abu Dhabi). Thanks are also due to his Highness Sheikh Mansour bin Zayed, the Ministry of Finance, the UAE Central Bank, the Department of Finance and ADCB's majority shareholder, Abu Dhabi Investment Council.

During 2009, two Board members (Mr Rashed Al Mazroei and Mr Aamer Al Fahim) retired. I would like to express ADCB's and its Board's gratitude for their long service and support.

I would also like to express gratitude to the support shown by the Bank's customers and clients throughout the year.

Lastly I would like to thank ADCB's Board members, senior management and staff for their continued dedication and loyalty. Whilst I expect 2010 to be another challenging year, I remain confident that ADCB, its senior management and staff, have the capabilities required.

Eissa Mohamed Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer, Executive Board Member

Chief Executive Officer's Report

The Bank has a great franchise and achieved record top-line revenue growth in 2009. However, 2009 was another extremely challenging year. Net profitability was impacted as a result of the economic crisis and additional provisioning requirements. The decision to take record provisions resulted in the bottom line of the Bank going into negative territory. On the positive side, the Bank recorded a number of achievements, notably being awarded the Hawkamah-UAB award for Corporate Governance, Sheikh Khalifa Excellence Award (Silver) for customer service and becoming a chosen partner with Oxford and Cambridge Universities as one of the top 100 global employers of choice.

The Board and key shareholders have expressed their full confidence in the Bank's newly established management team to drive the Bank through these turbulent times and deliver an outstanding performance. This is already evident from the solid growth in core operations during 2009. I remain optimistic about the long-term growth potential of the UAE and that the Bank is well placed to benefit as the economy rebounds.

During 2009 ADCB succeeded in growing the core business of the Bank to record levels and improving all important ratios. These improvements give ADCB a solid platform for the future.

- We took AED 3.86 bn in impairment provisions (2008 - AED 1.67 bn) which amounted to 3.1% of the loan and investment book. Such significant provisions brought our bottom line results to a net loss of AED 513 mn for 2009.
- Our net interest income grew by 32% and operating income witnessed strong growth of 9%.
- Our focused and disciplined approach to costs ensured they were held flat to the prior year and our cost-to-income ratio dropped to 32% in 2009 from 35% in 2008.
- Our biggest achievement was the growth of customer deposits by 11%, outgrowing the loans and advances growth of 7% during the year.
- Our capital position was significantly enhanced which stood at 17.4% as at 31 December 2009 (2008 - 11.4%), well above the regulatory minimum of 11%.
- Liquidity was another success, we ended the year with a solid liquidity position, with our advances-to-stable-resources ratio at 91%.

Our key local businesses of Retail, Wealth Management, SME, and Corporate Banking activities are amongst the most efficient and respected operations locally and regionally; the Bank was awarded the Sheikh Khalifa Excellency Award for 2009 and managed to efficiently service more than 345,000 active customers through only 49 branches.

New businesses launched in 2009 achieved strong results:

- Islamic Banking after a year of operation was our fastest growing segment under the Meethaq brand, contributing AED 3.93 bn of customer deposits and AED 1 bn of customer loans Meethaq provides customers with a wide range of Shariah compliant solutions.
- In its first year of operations in 2009, Investment Banking made a significant contribution to profitability by leading the structuring, book running and advising on AED 35 billion of bond, sukuk and loan transactions.

The Bank successfully repaid AED 7 bn of MTNs and maturing obligations in 2009 and successfully raised AED 3.7 bn of 5 years notes and AED 2.6 bn in shorter dated bonds, making ADCB the first and only bank in GCC that has qualified to issue under a global MTN program.

We maintained our focus on commitment to society by training and attracting and developing UAE nationals. As of 31 December, 2009 our UAE national staff count reached 35% of total staff headcount.

In light of both the global macro-economic conditions and the local operating environment during 2009, the Bank chose to adopt prudent practices to its renewed medium term strategy; thus focusing on a UAE centric approach to growth, operational efficiency, stable funding and world class risk management. We believe that this, coupled with our strong core earnings and our talent, provides ADCB a solid platform for value creation for the future.

On behalf of the Board of Directors and the Executive Management Team, I would like to express our sincere appreciation and gratitude to our shareholders for their support and our customers for their trust. As we entered 2010, we were well capitalised with a clear strategy. With the commitment and loyalty of our people, we created a strong foundation for the future and are positioned for long-term success.

2009 performance highlights

Net profits

A net loss of AED 513 mn, largely as a result of impairment and investment provisions.

Total income and interest margins

Total operating income in 2009 reached AED 4,783 mn, an increase of 9% over 2008.

2009 net interest income recorded a strong growth of 32% over 2008 reaching AED 3,276 mn for the year. Lower EIBOR/LIBOR resulted in a lower yield on assets and also a lower cost of funds.

Net interest margin increased by 25 bps in 2009 to 2.43% (2008 - 2.18%).

2009 non-interest income was AED 1,507 mn, a drop of 21% from 2008, driven primarily by lower trading and investment income. Mark-to-market loss on investment property totalled AED 83 mn during the year which was partially offset by increased revenues received from RHB totaling AED 214 mn for the year, contributing 4% of the total operating income.

Net fees and commission remained stable in 2009 reaching AED 986 mn for the full year compared to AED 982 mn in 2008.

Operating expenses

As a result of cost control initiatives introduced at the beginning of the year, costs for the year were virtually flat at AED 1,539 mn compared to AED 1,525 mn in 2008. Staff expenses were 23% lower year on year in the fourth quarter reaching AED 210 mn compared to AED 273 mn. A disciplined approach towards management of the cost base resulted in progressively reducing the cost-to-income ratio from 35% in 2008 to 32% in 2009.

Provision and impairment allowances

The net impairment allowances for 2009 were AED 3,753 mn, representing an increase of 151% over 2008. Of this AED 540 mn were provisioned for the investment portfolio, AED 2,968 mn for loans and advances and AED 245 mn against non-financial assets. Collective impairment provisions were at AED 459 mn and individual impairment provisions for the year were AED 2,619 mn and recoveries were at AED 109 mn.

Pre-provision profits

The Bank continued to deliver strong pre-provision profits. Operating profits before provisions were 13% higher in 2009 at AED 3,243 mn compared to AED 2,865 mn in 2008. Expansion of pre-provision income was achieved through successful loan re-pricing and widening interest margins and growth of the portfolio in 2H'08. The results reflect solid growth in ADCB's core operations in 2009, which represent a significant increase of 41% year on year, increasing from AED 1,938 mn in 2008 to AED 2,722 mn in 2009.

Assets

Total assets aggregated AED 160.2 bn as at 31 December 2009, representing controlled growth of 8% over 31 December 2008. Aggregated customer net loans as at 31 December 2009 increased to AED 116.6 bn, up 7% over 31 December 2008.

Customer deposits

Aggregate customer deposits were AED 86.3 bn as at 31 December 2009, representing an increase of 11% over 31 December 2008 (excluding the Tier II depositors from 2008 deposit base).

Ratios

As at 31 December 2009, the Bank's loans to deposit ratio was 135% and the loans to stable resources ratio as defined by the UAE Central Bank was 91% compared to 97% at 31 December 2008.

Capital

As at 31 December 2009, the Bank was well capitalised at 17.38%, compared to 11.37% at 31 December 2008 and stands well above the minimum requirement of 11% determined by the Central Bank. The Bank's Tier I ratio stood at 12.35%.

At 31 December 2009, ADCB's market capitalisation was AED 7,504 mn. The Bank employed 2,708 people and served over 330,000 retail customers and more than 15,000 wholesale customers in 49 branches.

Ala'a Eraiqat
Chief Executive Officer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WHEN YOU LEAVE YOUR MARK,
WILL IT MEASURE IN METERS
OR KILOMETERS?

About ADCB

Overview

ADCB was incorporated on 2 May 1985 as a public joint stock company for an unlimited duration in the Emirate of Abu Dhabi, UAE. ADCB is registered under the UAE Federal Commercial Companies Law No. (8) of 1984 under registration number 4 and operates in the UAE under a banking licence issued by the Central Bank of the UAE. ADCB's registered address is P.O. Box 939, Abu Dhabi, United Arab Emirates (telephone: +971 2 696 2222).

ADCB provides a range of consumer and corporate banking, Islamic banking, trade finance, structured finance, foreign exchange, derivatives, and financial advisory services. In addition, ADCB's subsidiary Abu Dhabi Commercial Islamic Finance PJSC holds an Islamic banking license, and ADCB holds a 25% interest in RHB Capital Berhad, a leading Malaysian financial services group.

As at 31 December 2009, in UAE ADCB operated 43 branches, two kiosks, four cash offices and 167 ATMs; 29 new ATMs were added during 2009. ADCB also operated 2 branches in India.

History and recent developments

ADCB was incorporated in 1985 following the merger of Khalij Commercial Bank, Emirates Commercial Bank and Federal Commercial Bank. The merger was effected pursuant to a resolution of the Abu Dhabi Executive Council.

Following a strategic review conducted during 2003, ADCB embarked upon a restructuring programme designed to create a competitive, contemporary and full-service bank offering a wide range of products and services to its customers and capable of sustainable growth in profitability. The restructuring strategy was implemented during 2003 and 2004. A new management team was also appointed during that period. In 2006, ADCB engaged McKinsey & Company to assist with a review of the Bank's products and services; this review culminated in the "ADCB Fast Forward" programme, a restructuring and overhaul of ADCB's products, which culminated in 2009.

ADCB has two joint ventures with Australia's Macquarie Bank. One joint venture focuses on infrastructure fund management. The other joint venture provides interest rate, currency and commodity derivatives products to clients in the GCC region. The joint ventures leverage the specialised infrastructure fund management, financing and derivative capabilities of Macquarie Bank.

During 2008, ADCB acquired a 25% interest in RHB Capital Berhad, which owns a leading Malaysian bank and other Malaysian financial services businesses.

During 2009, ADCB established and obtained an Islamic banking license for its subsidiary Abu Dhabi Commercial Islamic Finance PJSC.

Capital structure and ownership

As at 31 December 2009, ADCB's authorised and issued share capital was AED 4.81 billion. ADCB's shares have a nominal value of AED 1 each. The Government of Abu Dhabi currently indirectly holds 64.8 per cent. of ADCB's share capital.

ADCB's share capital is listed on ADX, the Abu Dhabi Securities Exchange.

In April 2008 ADCB issued mandatorily convertible bonds worth AED4.8 billion to four strategic shareholders, including the Government of Abu Dhabi. The bonds carry a coupon of

EIBOR plus 1.5%, and are mandatorily convertible before April 2011. At issue the bonds carried a conversion price of AED7.35. This price automatically adjusted to AED6.11 as a result of ADCB's bonus issue in May 2008.

Strategy

In 2007 ADCB formulated a three-year strategy to sustain long-term growth through diversification of its business model, operational effectiveness and an enhanced focus on recruitment. This strategy was designed to enhance ADCB's competitive presence, generate revenues from new sources and increase its customer base.

ADCB's strategic initiatives from 2007-2009 included the following:

- increasing investments to further expand and strengthen ADCB's business in its core client franchises, i.e. its retail, high net worth individuals, corporate and commercial client franchises;
- a focus on establishing an Islamic banking group and providing Shari'a compliant products and services; and
- expanding its business to a market or markets similar to the UAE market, where ADCB can leverage its core assets and capabilities.

During 2009, ADCB's Board of Directors and senior management held a series of strategy meetings and agreed and approved a revised strategy to cover the period 2010 to 2012.

Organisation and business activities

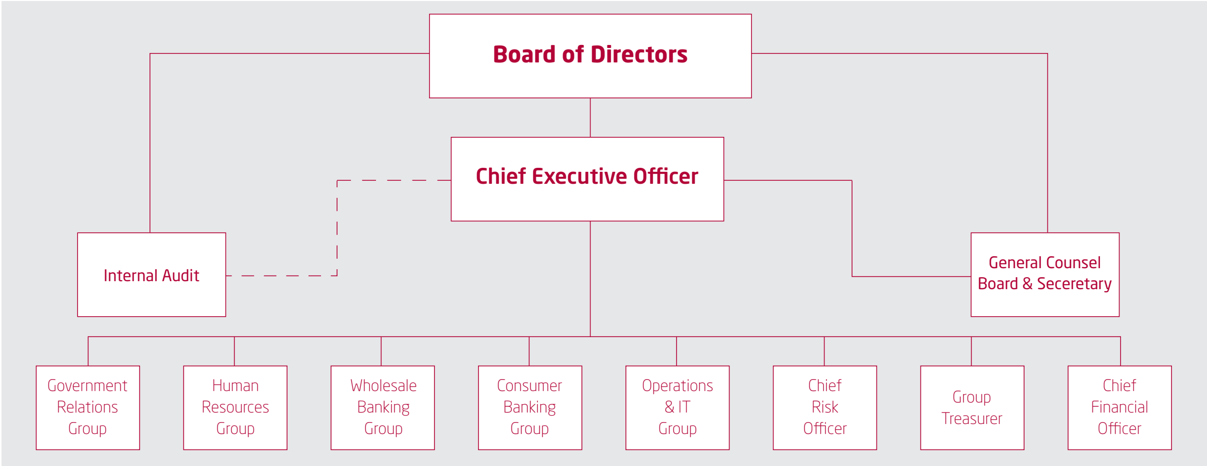
Operationally, as at 31 December 2009, ADCB's three principal areas of business were:

- *Wholesale banking* – this group comprised ADCB's businesss banking, cash management, trade finance, corporate finance, investment banking, Indian, infrastructure and strategic client operations;
- *Consumer banking* – this group comprised ADCB's consumer, retail, wealth management and Islamic operations; and
- *Treasury & Investments* - this group comprised ADCB's commercial treasury operations, management of the Bank's investment portfolio and ADCB's interest rate, currency and commodity derivative-focused joint venture with Macquarie Bank.

In addition, ADCB's subsidiary Abu Dhabi Commercial Properties LLC comprised ADCB's real estate management and services operations.

These groups are supported by ADCB's other departments which include credit, HR, operations, finance, investor relations, corporate communications, marketing, compliance, change management and legal. Internal control is managed by the Bank's internal audit group. Further details about the Bank's internal audit & compliance functions are in the "Corporate Governance" section of this report.

The following chart sets out the organisation structure of the Bank as at 31 December 2009:



Employees and remuneration

As at 31 December 2009, ADCB employed 2,708 members of staff.

ADCB's human resources policies aim to ensure that ADCB's staffing requirements are met through the recruitment and development of talented individuals and the implementation of tailored training and development programmes, performance appraisals and reward systems. Training is a high priority and staff courses include corporate finance, anti money laundering, customer service, internal control and training in the use of ADCB's core banking system.

ADCB has variable remuneration schemes for middle and senior management under which performance bonuses and other incentives (including interests in the Bank's shares) are awarded based on annual performance. The awards are dependent on individual performance, the performance of the respective business unit and the performance of ADCB as a whole.

ADCB also has an annual performance appraisal scheme for all staff and merit pay increases and bonuses are paid on the basis of performance rankings. ADCB also pays sales staff incentives for achieving sales and revenue targets.

Further details about these schemes, and awards made under them, are in the "Corporate Governance" section of this report.

In 1999, as part of a policy of "Emiratisation", UAE banks were instructed by the Government of Abu Dhabi to increase the number of UAE nationals on their payroll by at least 4 per cent. per annum.

In line with UAE government policy, ADCB has made a commitment to employing and training UAE nationals. ADCB has implemented a wide number of initiatives to recruit, train and retain qualified UAE nationals across all business segments and positions in ADCB.

Corporate Governance Report

ADCB's Board Of Directors

H.E. Eissa Mohamed Ghanem Al Suwaidi
Chairman

- Bachelor in Economics (Northeastern University, USA)

Mr. Al Suwaidi was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. Mr. Al Suwaidi holds over 20 years of experience in investments and banking.

External appointments:
- Executive Director – Abu Dhabi Investment Council
- Board Member – Abu Dhabi National Oil Company for Distribution, International Petroleum Investment Company, Abu Dhabi Fund for Development
- Board Member – Emirates Investment Authority
- Vice Chairman – Arab Banking Corporation - Egypt (S.A.E.)

Mr. Mohamed Sultan Ghannoum Al Hameli
Vice Chairman - Independent

- Bachelor in Finance (Boston University, USA)
- General Manager Programme (Harvard Business School)
- Chartered Financial Analyst (CFA Institute)

Prior to joining the Finance Department of the Government of Abu Dhabi, Mr. Al Hameli was the Assistant Director of the European Equities Department of ADIA. He was appointed by ADIA to join the ADCB Board of Directors in October 2004.

External appointments:
- Board Member – Abu Dhabi Development Fund
- Board Member – Abu Dhabi Airport Company
- Assistant Undersecretary of the Finance Department of the Government of Abu Dhabi

Mr. Ala'a Mohamed Atta Khalil Eraiqat
CEO, Executive Director

Mr. Eraiqat was appointed CEO and Director of the Bank in February 2009, previously having held senior management positions within ADCB since 2004 in Wealth Management Group, Retail Banking Group and UAE Banking and as Deputy CEO since 2007. Mr. Eraiqat holds over 18 years of banking experience in local and international environments. Prior to joining ADCB, Mr. Eraiqat held senior management positions with Citibank and Standard Chartered Bank. Mr. Eraiqat's banking excellency was recognised by the Asian Banker Promising Young Banker Award for the Gulf Region 2008.

External appointments:
- Board Member – Abu Dhabi National Hotels PJSC
- Board Member – Gulf Capital PJSC
- Board Member – MasterCard Asia/Pacific, Middle East & Africa Regional Advisory Board
- Member of the Abu Dhabi Chamber of Commerce Real Estate Investment Committee
- Member of the Honorary Board of the Al Ain Club

Mr. Mohamed Darwish Al Khouri
Independent

- Bachelor in Business Administration (Siena Heights College, Michigan)
- General Manager Programme (Harvard Business School)

Mr. Al Khouri has more than 20 years of experience as an investment professional. He oversees ADIA's Internal Equities Department. In May 2004, he was nominated by the Government of Abu Dhabi to join the ADCB Board of Directors and he was subsequently, in April 2006, elected by ADCB shareholders to act as an independent ADCB Director. In March 2009, he was again nominated by the Government of Abu Dhabi to join the ADCB Board of Directors. In January 2008 he was appointed as Executive Director of the ADIA Internal Equities Department.

External appointments:
- Executive Director – Internal Equities Department, ADIA
- Member of the Investment Committee, ADIA
- Board Member – National Marine Dredging Company
- Board Member – Al Benaa Property Investment Company

Mr. Abdulla Khalil Al Mutawa
Independent

- B.S. in Business Administration, (University of North Carolina, USA)

Mr. AlMutawa is a competent and dedicated investment professional with more than 20 years of experience and a comprehensive background in finance and administration. He was nominated by ADCB shareholders to join the ADCB Board of Directors in March 1997.

External appointments:
- General Manager – Office of Sheikh Suroor Bin Mohammed Al Nahyan
- Board Member – Al Falah Exchange, UAE
- Board Member – Bank Al Falah, Pakistan

Mr. Salem Mohamed Athaith Al Ameri

- Bachelor in Business Management Degree (Colorado Technical University, Colorado Springs, USA)

Prior to being appointed by Abu Dhabi Investment Council to join the ADCB Board of Directors in May 2007, Mr. Al Ameri spent 9 years with ADIA. During that time he was the Head of the Rest of the World region in the Private Equities Department.

External appointments:
- Executive Director – AbuDhabi Investment Council
- Board Member – Abu Dhabi Investment Company

ADCB's Board Of Directors (continues)

Mr. Mohamed Esmaeel Al Fahim

- Master of Science in Banking & Finance (Lebanese American University, Lebanon)

Mr. Al Fahim was elected by ADCB shareholders to join ADCB's Board of Directors in March 2009. Mr. Al Fahim has held senior positions in ADIA for over 22 years and is currently the Senior Section Manager of the Treasury Department.

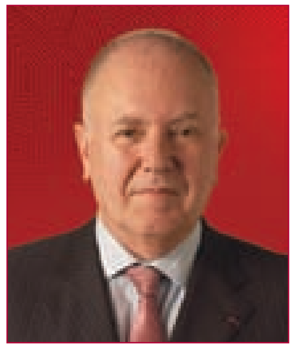
External appointments:
- Board Member – Burooj Properties (subsidiary of Abu Dhabi Islamic Bank)
- Board Member – Abu Dhabi Islamic Financial Services (subsidiary of Abu Dhabi Islamic Bank)
- Board Member – General Authority of Islamic Affairs and Endowments (Auwqaf Investment Board)
- Board Member – Takaful
- Board Member – Baniyas Investment
- Board Member – Al Fajer Investment
- Board Member – Green Crescent Insurance (Investment Board)

Mr. Mohamed Ali Al Dhaheri

- Bachelor of Business Administration (International University of America)

Before being appointed by Abu Dhabi Investment Council to join the ADCB Board of Directors in May 2007, Mr. Al Dhaheri was the Chief Operating Officer of the Treasury Department in ADIA.

External appointments:
- Accounting & Financial Services – Abu Dhabi Investment Council
- Board Member – Abu Dhabi Investment Company



Mr. Jean-Paul Pierre Villain
Independent

- Institute Etudes Politiques (Paris)
- Licence et DEA Economie (Paris)
- Licence et DEA Science (Paris)

After a brief period as an Assistant Professor in Finance at a Parisian University, Mr. Villain joined Banque Paribas in 1971, moving from Portfolio Manager to Head of Investments in the asset management department. In 1982, he joined ADIA as the Regional Manager for Europe before being appointed Senior Fund Manager for all financial assets. He returned to Paribas in 1987 to become the first Chief Executive and Chief Investment Officer of newly created Paribas Asset Management.

He was appointed by ADIA to join the ADCB Board of Directors in May 2004. In 2007, the President of the French Republic made him "Chevalier de la Legion d'Honneur".

External appointments:
- Head of ADIA Strategy Committee
- Head of the Strategy Unit at H.H. the Managing Director's Office of ADIA
- Member of the Investment Committee of the Abu Dhabi Fund for Retirement and Benefits
- Governor – British Community School, Abu Dhabi

Shaikh Sultan Bin Suroor Al Dhahiri

- Bachelor in Business & Marketing (Middlesex University, London UK)

Sheikh Sultan Al Dhahiri was elected by ADCB shareholders to join the ADCB's Board of Directors in March 2009.

External appointments:
- Chief Executive Officer – Al Dhaheri Group
- Board Member – Abu Dhabi National Tourism and Hotels Company
- Board Member – Al Khazna Insurance Company

Mr. Khalid Deemas Al Suwaidi
Independent

- Master of Business Administration, minor in Management Information Systems and Strategic Planning (Widener University, USA)
- Bachelor of Science/Computer Information Systems (Bethune Cookman College, USA)

Mr. Al Suwaidi was appointed by the Abu Dhabi Investment Council to join the ADCB Board of Directors in March 2009. Mr. Al Suwaidi has approximately 13 years of banking experience, having held senior management positions with National Bank of Abu Dhabi and First Gulf Bank.

External appointments:
- Chief Executive Officer – Das Holding
- Board Member – Takaful
- Chairman of Manafa Outdoors
- Chairman of United Tina
- Board Member – Al Dar Financial Securities

Mr. Simon Copleston
Board Secretary & General Counsel

Simon Copleston was appointed as ADCB's Board Secretary in January 2008. He is a Solicitor of the Senior Courts of England & Wales. After obtaining a degree from Durham University, Mr Copleston practised corporate law in the City of London for eight years. In January 2006 he joined Abu Dhabi Investment Authority where, amongst other things, he acted as lawyer to the Emerging Markets Department and their Strategic Investment and Infrastructure teams.

The Board

Role of the Board

The Board of Directors (the "Board") is the Bank's principal decision-making forum. It has overall responsibility for leading, supervising and controlling the Bank and is accountable to shareholders for creating and delivering sustainable shareholder value through its guidance and supervision of the Bank's business. In particular, it sets the goals, strategies and policies of the Bank. The Board monitors performance of the Bank's businesses and guides and supervises the Bank's management.

Decisions of the Board are, with limited exceptions, made by majority vote of those present (in person or by proxy) at the meeting.

The Board has a rolling agenda to ensure that each of its responsibilities is satisfied on a periodic basis. During 2009, amongst other items, the Board focused on liquidity, risk management, financial performance, financial planning and control and strategy. The Board considers other agenda items on an 'as required' basis.

The Board, directly or through its Committees, is responsible for the supervision of management of the business and affairs of the Bank, with the objective of enhancing shareholder value.

Board structure and composition

Pursuant to the Bank's articles of association, the Board of Directors comprises Directors, 10 of whom are non-executive Directors elected by the Bank's shareholders, and the CEO who serves on the Board as an Executive Director. In accordance with the Federal Commercial Companies Law and the Bank's articles of association, the majority of the Board are UAE nationals. Collectively, the Board possesses knowledge, experience and skills appropriate for the Bank.

The Board maintains awareness of the other commitments of its Directors and is satisfied that these do not conflict with their duties and time commitments as Directors of the Bank.

The Board considers that there is an appropriate balance of executive and non-executive Directors on the Board and that the size and balance of the Board is appropriate.

The roles of the Chairman and the CEO are separate and each is held by an experienced Director. There is a clear division of responsibilities between the respective roles and responsibilities of the Chairman and the CEO. The Chairman's main responsibilities include:

- to lead the Board and ensure the effective engagement and contribution of all Directors, so that the Board may fully discharge its legal and regulatory responsibilities
- to ensure effective communication with shareholders and ensure that the Board members understand the views of the major shareholders
- to oversee the annual performance evaluation of the Board and individual Directors
- to develop a constructive relationship with the CEO and to manage his performance

The day-to-day management of the Bank has been delegated by the Board to the CEO. The CEO is responsible for controlling and monitoring the Bank's business on a day-to-day basis, recommending strategy to the Board, leading senior management and implementing the Board's strategic and operational decisions.

In February 2009, Mr. Ala'a Eraiqat succeeded Mr. Eirvin Knox as CEO of the Bank. The appointment was made by the Board after consultation with the major shareholder and consideration of the Bank's succession planning.

Appointment, retirement and re-election

According to the Bank's articles of association, all Directors are required to seek re-election by shareholders every three years. Directors are permitted to elect any Director nominated to fill a vacancy, but any director so appointed must seek election by shareholders at the next annual general meeting. One-third of the Board will seek re-election on an annual basis.

Any candidate for appointment as a Director must first be considered and approved by the Board's Nomination, Follow Up & Remuneration Committee. Amongst other things, the Committee will consider whether the skills held by the candidate Director are suitable. The Committee has agreed a list of skill requirements necessary for the proper functioning of the Board as a whole. Where necessary, the Committee will also consider whether the candidate meets the Bank's and SCA's criteria for independence. Where Abu Dhabi Investment Council intends to appoint a new Director, it will consult with the Committee in advance of such appointment.

Under the Bank's articles of association, Abu Dhabi Investment Council has the right to elect such number of Directors as is proportionate to the percentage of the Bank's share capital it holds (as at 31 December 2009, 64.8%). As at 31 December 2009, the Directors nominated by Abu Dhabi Investment Council were: Mr Eissa Al Suwaidi (Chairman), Mr Mohamed Al Hameli, Mr Salem Al Ameri, Mr Mohammed Al Dhaheri, Mr Jean-Paul Villain, Mr. Mohamed Al Khouri and Mr. Khalid Al Suwaidi. As at 31 December 2009, the Bank's Directors elected by other shareholders were Mr Abdulla Al Mutawa, Sheikh Sultan Al Dhahiri and Mr Mohamed Al Fahim.

As at the date of their appointment, Mr Mohamed Al Hameli, Mr Abdulla Al Mutawa, Mr Jean-Paul Villain, Mr Mohamed Al Khouri and Mr Khalid Al Suwaidi were classified by the Bank as independent Directors. Whilst such classification is made with due regard for SCA's Code of Corporate Governance, the independence criteria set out in that code will only become mandatory in April 2010. In keeping with ADCB's commitment to sound corporate governance practices, the Bank's independent Directors represent more than 1/3 of the Board.

The CEO became an Executive Director of ADCB upon his appointment, in accordance with the Bank's articles of association in February 2009.

Induction and professional development

Full, tailored induction programmes are arranged for all newly appointed Directors. The programme comprises a comprehensive Directors' Handbook, meetings with other Directors and senior management, as well as comprehensive guidance on the duties and responsibilities of Directors, the Bank's policies and procedures and relevant legal and regulatory requirements. In 2009, Directors were provided with opportunities to update and develop their skills and knowledge through external seminars, regular presentations from senior management, and relevant reading materials. In addition, the Board Secretariat worked with various external providers to source suitable tailored training sessions.

Matters reserved to the Board

Strategy and management – setting the Bank's long-term objectives and commercial strategy, and monitoring management's performance.

Structure and capital – approving changes relating to capital structure, corporate structure and management and control structures.

Financial reporting and controls – approving interim and final results, annual report and accounts, dividends, business plans, budgets and forecasts, significant changes in accounting policies or practices, remuneration of and appointment or removal of auditors and other material policies.

Internal controls – setting and monitoring internal controls and risk management strategies.

Major transactions – approving major capital investments and projects, by reason of materiality or size, including acquisitions, mergers, disposals, and material contracts not in the ordinary course of business.

Board and other appointments – appointment or removal of Directors, the CEO, the Board Secretary and other key senior management, succession planning, terms of reference and membership of Board Committees, annual performance review of Directors and Board Committees.

Remuneration – determining policy for remuneration of Directors and senior executives, creation and approval of share incentive plans and other remuneration schemes.

Delegation of authority – monitoring matters delegated to Board Committees, management committees and management.

Meetings

The Board of Directors meets regularly and Directors receive information between meetings about the activities of management committees and developments in the Bank's business. There were 8 Board meetings in 2009.

The table that follows gives details of each Director's attendance at meetings of the Board and the Board Committees in 2009.

Name	Status	Board	Meetings 8	Audit & Compliance Committee	Meetings 7	Corporate Governance Committee	Meetings 3	Risk & Credit Committee	Meetings 37	Nomination, Follow Up Remuneration Committee	Meetings 7
Aamer Abdul Jalil Al Fahim	Director [1]	•	1	•	1					•	2
Abdulla Al Mutawa	Director [1,5]	•	7			•	3	•	35		
Ala'a Eraiqat	Director [3]	•	7								
Eissa Al Suwaidi	Director [4]	C	7					C	28	•	6
Jean Paul Villain	Director [4,5]	•	8					•	21		
Khalid Deemas Al Suwaidi	Director [2,4,5]	•	5	•	4					•	3
Mohammed Ali Al Dhaheri	Director [4]	•	7	•	6					•	7
Mohamed Al Fahim	Director [2]	•	4			•	2				
Mohd Sultan Al Hameli	Director [4,5]	•	7					•	28	C	7
Mohamed Darwish Al Khouri	Director [4,5]	•	8	•, C	2, 5	•	3				
Rashed Humaid Al Mazroei	Director [1]	•	3	C	2						
Salem Mohd Al Ameri	Director [4]	•	8			C	3	•	33		
Sheikh Sultan Al Dhahiri	Director [2]	•	3	•	3						

C Chairman
• Member
1 Appointment until 31 March 2009
2 Appointment effective 31 March 2009
3 Appointment effective 4 February 2009
4 Nominated by Abu Dhabi Investment Council
5 Independent Director

Information Dissemination

The Board Secretariat delivers Board papers to the Board by means of a secure Board portal. The portal is also used to provide Directors with access to other relevant information, and induction documentation. In keeping with the Bank's principles of transparency, Directors may use the portal to view and access all documents presented to the Bank's management committees, as well as minutes of meetings of those committees.

Board Committees

The Board has established four Board Committees to ensure that the Board carries out its functions and provides effective oversight and leadership:

1. The Audit & Compliance Committee
2. The Corporate Governance Committee
3. The Nomination, Follow-up & Remuneration Committee
4. The Risk & Credit Committee

The roles and delegated authorities of these Committees are set out in their terms of reference, copies of which are available at www.adcb.com/about us/corporate governance. The terms of reference are reviewed regularly.

The members and chairmen of the Board's Committees are reviewed on a regular basis to ensure suitability and compliance with other requirements, and rotated as needed. In particular, the Bank adheres to the rules of SCA's Code of Corporate Governance regarding inclusion of independent Directors as chairman and members of the Audit & Compliance Committee and the Nominations Follow Up and Remuneration Committee.

1. Audit & Compliance Committee

Mohamed Al Khouri (Chairman, Independent Director)
Khalid Deemas Al Suwaidi (Independent Director)
Shaikh Sultan Al Dhahiri
Mohamed Al Dhaheri

Secretary: Rami Raslan

The primary responsibilities and functions of the Audit & Compliance Committee are to provide assistance to the Board to fulfil its duties to ensure and oversee:

- the integrity of the Bank's financial statements
- the suitability, independence and performance of the Bank's auditors (internal and external), as well as remuneration of the Bank's external auditors
- internal controls, including controls over financial reporting, risk management and disclosure
- compliance with legal and regulatory requirements

Generally, the role of the Audit & Compliance Committee is advisory in nature, with recommendations reported to the Board for final approval. However, in certain limited circumstances decisions may taken by the Audit & Compliance Committee, which are binding on the Board; for example, approving the terms of engagement of the external auditor.

The Audit & Compliance Committee holds a minimum of four meetings per year and provides regular reports to the Board.

The Audit & Compliance Committee's terms of reference are available at www.adcb.com/aboutus/corporategovernance.

Statement from the Chairman of the Audit & Compliance Committee

During 2009, the Audit & Compliance Committee (the "Committee") was comprised of four non-executive Directors. The Chairman of the Committee was an independent Director with relevant qualifications and experience in finance.

The Committee held 7 meetings in 2009, during which the Committee allocated its time to the following matters:

- overseeing the financial reporting and disclosure process
- monitoring the choice of accounting policies and principles
- discussing the annual audited financial statements with management and the external auditor and in particular, considering the appropriateness of the Bank's specific and general provisions
- overseeing regulatory compliance
- monitoring the internal controls
- overseeing the performance and activities of the internal audit function
- evaluating the auditor's qualifications, performance, and independence
- discussing risk management policies and practices with management
- reviewing audit issues raised by the independent auditor and management's responses
- reporting regularly to the Bank's Board of Directors

The Committee regularly met separately with the external auditor and internal auditors in the absence of the Bank's management. In addition, the Committee discussed with senior management matters relating to the Bank's investment and credit portfolios along with provisions' adequacy, geographical exposure, liquidity, capital planning, budgeted versus actual performance, growth strategy, asset liability management, and Central Bank and other regulatory agencies' reports. The views of the external and/or internal auditors were solicited on these matters.

Mohamed Al Khouri,
Chairman of the Board's Audit & Compliance Committee

2. Corporate Governance Committee

Salem Al Ameri (Chairman)
Mohamed Al Khouri (Independent Director)
Abdulla Al Mutawa (Independent Director)
Mohamed Al Fahim

Secretary: Sonya Santolin

The Corporate Governance Committee was established to oversee the development and implementation of ADCB's corporate governance strategy and action plan. In particular, the Corporate Governance Committee is responsible for:

- development of corporate governance procedures and best practices within the Bank
- compliance with regulatory requirements relating to corporate governance
- public reporting on corporate governance matters

The Corporate Governance Committee's terms of reference are available at www.adcb.com/about us/corporate governance. The role of the Corporate Governance Committee is advisory. Recommendations are made to the Board for final approval.

Statement from the Chairman of the Corporate Governance Committee

The Corporate Governance Committee monitors best practices worldwide and regularly reviews and makes recommendations to enhance the Bank's corporate governance practices and disclosures in order to achieve high standards of corporate governance.

The Committee held 3 meetings over the course of 2009. Amongst other things, the Corporate Governance Committee allocated its time in 2009 to the following matters:

- adoption and monitoring of the implementation of the Bank's corporate governance step plan
- confirming reporting lines of select senior Bank officers to secure their independence
- reviewing and recommending amendments to Board Committees' terms of reference
- reviewing and recommending amendments to the Bank's articles of association
- reviewing the Bank's compliance with international best practices in governance in internal controls
- considering corporate governance sponsorships
- international developments in corporate governance best practices
- Board composition, selection and appointment, qualification requirements, remuneration and loans
- reviewing and recommending amendments to the Bank's corporate governance code
- publication of corporate governance information
- establishment of investor relations and compliance functions
- making recommendations to the Board and Board Committees on governance matters
- reviewing directors' letters of appointment
- Directors' performance evaluations, induction and ongoing professional development

The Corporate Governance Committee plays an advisory role, reporting its recommendations to the Board for final approval.

The Committee considers that positive progress was made during 2009 in the implementation of the Bank's corporate governance initiatives. The Bank's initiatives were recognised by the Hawkamah UAB award for corporate governance.

Salem Al Ameri,
Chairman of the Board's Corporate Governance Committee

3. Nomination, Follow Up & Remuneration Committee

Mohamed Al Hameli (Chairman, Independent Director)
Eissa Al Suwaidi
Mohamed Al Dhaheri
Khalid Deemas Al Suwaidi (Independent Director)

Secretary: Sonya Santolin

The Nomination, Follow Up & Remuneration Committee is responsible for:

- ensuring the appropriate composition of the Board
- ensuring Independent Directors remain independent on a continuous basis
- selection and appointment of Directors
- orientation and training sessions for new and existing Directors
- succession planning for Board members and senior management
- selection and appointment of senior management
- performance assessment of the Board, individual Directors and senior management
- development, application and review of human resources and training policies
- determining ADCB's requirements for executive managers and employees
- remuneration policies for management and the Board, and the Bank's remuneration and incentive plans
- ADCB's public reporting of remuneration matters

In determining the composition of the Board, the Nomination, Follow Up & Remuneration Committee considers the knowledge, skills and experience which are anticipated to be required by the Board. No Director participates in any decisions regarding his own appointment or remuneration.

Copies of the Policies & Procedures for Selection & Appointment of Directors, Directors' Skills Requirements and the CEO Performance Evaluation & Remuneration Policy are available at www.adcb.com/about us/corporate governance.

The Nomination, Follow Up & Remuneration Committee is authorised to take certain appointment and remuneration decisions which may bind the Board. In all other cases, recommendations are made to the Board for final approval. The Nomination, Follow Up & Remuneration Committee's terms of reference are available at www.adcb.com/about us/corporate governance.

Statement from the Chairman of the Nomination, Follow Up & Remuneration Committee

The Nomination, Follow Up & Remuneration Committee met 7 times in 2009, and worked on the following matters:

- selection and appointment of Directors
- identification of Independent Directors
- professional development schemes
- Directors' remuneration and fees
- CEO performance evaluation and remuneration
- Bank's remuneration policy for Directors, senior management and staff
- compensation and bonus recommendations
- organisation and reporting structure
- recruitment of senior management
- selection and appointment of senior management as directors to Bank associates
- succession planning for senior management
- staff performance evaluations
- Board performance evaluation
- international corporate governance developments in remuneration

In recognition of the critical value of the Bank's human resource capital, the Committee monitored the Bank's processes, systems and initiatives, international developments in corporate governance, local market trends as well as the overall strategy of the Bank and shareholders' interests. Remuneration and incentive rewards were designed to be performance-target based, to align with shareholders' interests and to ensure effective recruitment, retention and development practices in keeping with Bank's objectives.

The Committee made significant progress during 2009 towards fulfilling its mandate.

Mohamed Al Hameli,
Chairman of the Board's Nomination,
Follow Up & Remuneration Committee

4. Risk & Credit Committee

Eissa Al Suwaidi (Chairman)
Mohamed Al Hameli (Independent Director)
Jean-Paul Villain (Independent Director)
Abdulla Al Mutawa (Independent Director)
Salem Al Ameri

Secretary: Rami Raslan

The Risk & Credit Committee is responsible for:

- development of risk management tools
- development and implementation of risk management strategies and limits
- compliance with regulatory requirements relating to risk management
- public reporting on risk management matters
- major credit commitments of the Bank

The Risk & Credit Committee may delegate certain of its responsibilities to management through the Management Executive Committee as it deems appropriate. During 2009, only limited responsibilities relating to consumer credit commitments, were delegated to management.

The Risk & Credit Committee's terms of reference are at www.adcb.com/about us/corporate governance.

Statement from the Chairman of the Risk & Credit Committee

During 2009, the Risk & Credit Committee (the "Committee") comprised of five non-executive Directors each of whom has a solid background and knowledge in finance.

The Committee held 37 meetings in 2009. The Committee oversaw management's administration of the Bank's credit portfolio, including management's responses to trends in credit risk, credit concentration and asset quality, and received and reviewed reports from senior management (and appropriate management committees and credit units) regarding compliance with applicable credit-risk related policies, procedures and tolerances.

Over the course of 2009, the Committee considered a wide range of matters, from credit commitments to risk policies, strategies and new products, with increasing emphasis on its risk policy, rather than its credit, functions. The Committee:

- examined the actual risks and the control deficiencies in the Bank
- assisted the Board to define the risk appetite of the Bank
- exercised oversight of management's responsibilities, and reviewed the risk profile of the Bank to ensure that risk exposure conforms to the risk appetite determined by the Board
- monitored the effectiveness of risk management functions throughout the Bank
- ensured the adequacy of infrastructure, resources and systems to maintain a satisfactory level of risk management discipline
- monitored the independence of risk management functions throughout the Bank
- reviewed issues raised by Internal Audit which might impact the risk management framework
- ensured the existence of a pervasive risk-awareness culture throughout the Bank
- considered the Bank's key risks, including concentration and sectoral credit exposures

Towards the end of 2009 the Committee conducted policy meetings on a more frequent basis, with the objective of reviewing strategies, policies, frameworks, models and procedures that lead to the identification, measurement, reporting and mitigation of material risks.

The Committee considers that it made positive progress during 2009 towards meeting its responsibilities.

Eissa Al Suwaidi,
Chairman of the Board's Risk & Credit Committee

Board Performance and Conflict

Performance evaluations

An effective Board is crucial to the success of the Bank. To assess the performance of the Board, the Board undergoes a rigorous performance evaluation annually.

The 2009 performance evaluation process was led by the Chairman, supported by the Board Secretary, in conjunction with an external consultant, Nestor Advisors, a London-based consultancy focused exclusively on corporate governance and organisation. The Bank's policy is to retain an external consultant every 3 years to ensure objectivity in the performance evaluation process. The results of the 2009 evaluation are pending and any necessary changes identified by the Chairman will be implemented during 2010.

Related-party transactions

Details of all transactions where a Director and/or other related parties might have potential interests are provided to the Board for its review and approval, and the interested Directors neither participate in the discussions, nor do they vote on such matters.

For details of the Bank's related party transactions, please see Note 36 to the audited financial statements.

Conflicts of interest

The Board maintains awareness of the other commitments of its Directors and senior management. During 2009, ADCB implemented a Directors' Conflict of Interest Policy which can be found at the Bank's corporate governance web pages at www.adcb.com/about us/corporate governance.

Remuneration

The Directors' fees paid during 2009 were:

	Directors' fees (AED per annum)	Fees for attendance at Board Committee meetings (other than Audit & Compliance Committee)	Fees for attendance at Board Audit & Compliance Committee meetings
Chairman of Board	750,000	Chairman of Board Committee 5,000	Chairman of Board Committee 7,500
Director	500,000	Member of Board Committee 4,000	Member of Board Committee 6,000

As at 31 December 2009, the Board was satisfied that the other commitments of the Directors and senior management do not conflict with their duties.

Directors' remuneration and interests in the Bank's shares

Remuneration policy

Directors' remuneration is set annually by the Board following delegation from the Bank's shareholders. The remuneration currently approved is set out below. Proposals for changes are considered by the Nomination, Follow Up & Remuneration Committee.

According to federal laws and the Bank's articles of association, Directors may not receive any remuneration in respect of a year where the Bank does not achieve net profits.

The Directors' fees (excluding Committee fees) referred to above, related to the 2008 year.

Directors' interests in the Bank's shares

Name	Shareholding at 1 January 2009	Shareholding at 31 December 2009	Change in shareholding
Abdulla Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat	476,693[1]	476,693[1]	0
Eissa Al Suwaidi	0	0	0
Jean Paul Villain	6,012	6,012	0
Khalid Deemas Al Suwaidi	0	0	0
Mohammed Ali Al Dhaheri	0	0	0
Mohamed Al Fahim	0	0	0
Mohd Sultan Al Hameli	0	0	0
Mohamed Darwish Al Khouri	837,325	837,325	0
Salem Mohd Al Ameri	0	0	0
Sheikh Sultan Al Dhahiri	0	10,000	10,000

[1] Restricted units vesting at 31st December 2010

Other benefits

As at 31 December 2009, the Bank's Directors were not eligible for any bonus, long term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

Directors are eligible to receive, and have received, loans from the Bank. However, all loans are made on arms' length terms.

Dividend policy

Annual dividend payments are part of the Bank's commitment to delivering value to shareholders.

In determining the Bank's dividend payout for a particular year, the Board of Directors considers a variety of factors including the Bank's outlook for earnings growth, liquidity requirements, capital expenditure requirements, cash flow from operations, acquisition and business expansion strategy, debt position, and capital adequacy rules. The Bank seeks to adopt a progressive approach to dividend payments, subject to the foregoing considerations and also subject to prescribed statutory limitations regarding the amount available for distribution. In particular, as required by UAE laws, the Bank's articles of association (Article 82) specify that the Bank's net annual profits shall, after deduction of general expenses and other costs, be distributed as follows: (a) 10% will be deducted and allocated to a statutory reserve account (b) a further percentage shall be deducted from the profits and allocated to any established voluntary reserve account (c) 5% shall be distributed to shareholders (d) a maximum of 10% of net profit shall be allocated as remuneration for the Board, but only after approval of the General Assembly, and (e) the remaining profits shall be retained or distributed to shareholders as the Board shall recommend.

Generally, dividends shall be paid out in cash or bonus shares, on an annual basis, shortly after the Bank's annual general assembly.

The Board of Directors has not recommended the payment of any dividend for the 2009.

Internal control

The Board is committed to managing risk and ensuring that effective measures are in place to safeguard the Bank's assets, ensure proper accounting records and reliable financial information by procedures designed to avoid or reduce risks and ensure compliance with applicable laws and regulations.

The Bank is subject to three main sources of regulation and supervision:

1. The Central Bank – the Central Bank provides prudential supervision of banking activities. Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission of data including credit data and anti-money laundering measures.

2. UAE Federal Laws, including the Federal Law No.8 of 1984 Concerning Commercial Companies, as administered by the Ministry of Economy and Planning and local regulatory authorities within each of the Emirates.

3. As a listed company, the Bank is subject to the rules and regulations enforced by the Emirates Securities and Commodities Authority and the markets upon which its shares and debt are listed, including the ADX, the London Stock Exchange and the Luxembourg Stock Exchange.

While the Audit & Compliance Committee oversees and reviews the Bank's compliance policies and their implementation, the Bank's compliance group, which reports to the Chief Risk Officer, acts as the focal point and is responsible for implementing, monitoring and ensuring compliance with local regulatory and statutory requirements. Compliance with anti-money laundering procedures and internal training in such procedures is also monitored and implemented by the Bank's compliance group. In 2009 particular emphasis was given to embedding an enhanced culture of compliance through the development of compliance systems and policy infrastructure.

The Bank's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles. The Bank's internal controls include policies and procedures that (i) are designed to ensure maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and Directors of the Bank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements. Internal controls are designed to ensure that adequate independent internal checks and balances exist in keeping with the maker-checker or four-eye principle and that the oversight roles are embedded in areas reporting independently to non-originating areas.

Because of their inherent limitations, internal controls may not always prevent or detect misstatements.

Audit arrangements

The external auditor is appointed annually. At the 2009 Annual General Assembly, Deloitte & Touche was appointed as the external auditor of the Bank.

The Board's Audit & Compliance Committee and articles of association include measures to ensure the ongoing independence of the Bank's external auditor:

- no audit firm may be appointed for more than 5 consecutive years without shareholders' approval
- no individual audit partner may be responsible for the audit for more than 3 consecutive years
- the Committee will make recommendations on the rotation of the external audit firm, or of the partner of the firm in charge of the Bank's audit, to ensure the independence of the external auditors
- without the consent of the Committee, the external auditor may not carry out any additional work for the Bank which is not part of the audit programme

The Bank has complied with Article (10) of The Securities and Commodities Authority's Chairperson Decision No. (R/32) of the year 2007 on Corporate Governance Code for joint-stock companies and Institutional Discipline Criteria governing the appointment of and carrying out of non-audit work by the Auditor.

The scope of the audit is agreed between the Board Audit & Compliance Committee and the auditor. The external audit partner attends meetings of the Board Audit & Compliance Committee by invitation and attends the Board meetings when the annual and half-yearly accounts are approved and signed, and otherwise when needed. The Board Audit & Compliance Committee also periodically meets separately with the Bank's internal auditors and the auditor in the absence of management.

Internal audits

The internal audit department (IAD) is responsible for the evaluation of the Bank's risk management, control and governance processes. The IAD also oversees and conducts the Bank's internal audit function.

The IAD is responsible to ensure that all transactions undertaken by the Bank are conducted in accordance with the Bank's internal procedures, and in compliance with applicable legal and regulatory requirements, thereby minimising the risk of fraudulent, improper or illegal practices. The IAD performs its function in accordance with a risk-based audit methodology.

In accomplishing its audit activities and responsibilities, members of the IAD have unrestricted access to all of the Bank's records (either manual or electronic), assets, physical properties and personnel, relevant to the audit.

Although the IAD conducts audits on all of the Bank's units, the frequency of internal audits carried out with respect to each of the Bank's units depends on the inherent risk of that unit and its related control risk evaluation. All audits are conducted in accordance with the annual audit plan, which is approved by the Board Audit & Compliance Committee, and which may be broadened as circumstances require.

The Head of IAD reports regularly to the Board Audit & Compliance Committee, the Chairman and the Chief Executive Officer.

Management committees

Certain day-to-day activities of the Bank have been delegated by the Board to the Bank's Management Executive Committee (the "MEC"). The MEC meets regularly and reports to the Board.

The MEC is composed of key members of management, whose appointments to the MEC are approved by the Nomination, Follow Up & Remuneration Committee. The responsibilities of the MEC include:

- establishing the organisation structure for management and management committees
- implementing strategy set by the Board and recommending strategy and policy decisions
- recommending the Bank's annual budget
- approving key performance indicators for each business line
- approving expenditures, up to certain delegated limits set by the Board
- approving establishment of branches, agencies, joint ventures and subsidiaries and appointments of directors to subsidiaries
- approving debt-funding issues, up to certain delegated limits set by the Board
- approving recovery settlements and write-offs, up to delegated limits set by the Board
- approving new products
- approving Bank policies, excluding those falling within the Board's responsibility

Other management committees included the IT Steering Committee, the Investment Committee, the Assets & Liabilities Committee, the Management Credit Committee, and the Recoveries Committee. All management committees report to the MEC. The MEC has full authority to review and reorganise the composition and terms of reference of the management committees.

Management remuneration and incentives

Guiding principles

In line with ADCB's commitment to sound governance and promotion of long-term sustainable shareholder value, ADCB's objective is to provide transparency to shareholders and other stakeholders about its remuneration principles and incentives.

- ADCB supports levels of remuneration necessary to attract, retain and motivate staff of the calibre necessary to lead, manage and serve in a competitive environment. However, ADCB seeks to avoid paying more than necessary for this purpose and has practices and policies in place which promote effective risk-management.
- ADCB seeks to ensure that remuneration packages reflect duties and responsibilities, are fair and equitable and incorporate clear and measurable rewards linked to corporate and personal performance. Rewards will only be made based on the results of a rigorous appraisal process.
- As far as possible bearing in mind market trends and constraints, remuneration shall align the interests of ADCB's staff with the interests of shareholders and other stakeholders, and shall blend short and long-term incentives. Performance related elements shall be designed to minimise staff turn-over and to give staff incentives to perform at the highest levels, whilst recognising the need to promote effective risk management.

Incentive plans and 2009 awards - ERP

The Bank established an Executive Reward Programme (ERP) in 2006. The objective of the ERP is to reward key members of the Bank's management where the Bank achieves net profit targets. Any cash rewards paid to eligible participants are subject to a 3-year vesting period. In view of the Bank's performance during in 2008, no award was made under the ERP in 2009.

Incentive plans and 2008 awards - LTIP

The Bank established a Long Term Incentive Plan (LTIP) for the benefit of key members of the Bank's management in 2008. The LTIP aims to align the interests of the Bank's management with creating long term value for the Bank's shareholders. LTIP awards comprise interests in the Bank's shares, which are awarded to the Bank's management. Vesting of the awards is subject to certain conditions. In particular, the manager must remain employed by ADCB at the vesting date, which is usually three years after the date of grant of the award. In order to ensure that LTIP awards will be satisfied at no additional cost to the Bank, the administrator of the scheme acquired Bank shares in the market to a value equal to the award.

In view of the LTIP awards made in 2008 (in respect of the 2007 year), and the Bank's performance in 2008, no LTIP awards were made in 2009.

Salaries, emoluments and cash bonuses of key management

During 2009, key management received salaries and other emoluments (excluding cash bonuses) worth AED 12,946,841 in aggregate. In view of the Bank's performance in 2008 and position during 2009, no general salary increments, ERP payments or LTIP awards were awarded to staff, including key management. Certain staff and key management received salary increments on promotion or for other exceptional reasons.

During 2009, key management received cash bonuses worth AED 10,316,756 in aggregate. These bonuses related to performance in the 2008 year, and were subject to claw back and retention provisions.

For these purposes, key management staff means members of Senior Management who served on the Bank's Management Executive Committee throughout the 2009 year.

The Bank uses independent external consultants to conduct regular benchmarking studies of the Bank's remuneration and remuneration studies. The results of the most recent study were received by the Bank during 2009.

Governance at ADCB

ADCB recognises the role of good corporate governance in enhancing market stability, protecting shareholders and creating additional shareholder value. We strive to earn and retain the trust of our shareholders and other stakeholders through our commitment to upholding high standards of corporate governance which reflect applicable legal and regulatory requirements and best practices. The guiding principles of the Bank's corporate governance are:

Responsibility - clear division and delegation of authority

Accountability - in relationships between the Bank's management and the Board, and between the Board, shareholders and other stakeholders

Transparency and disclosure - to enable stakeholders to assess the Bank's financial performance and condition

Fairness - in the treatment of all stakeholders

Corporate governance code

ADCB is committed to high standards of corporate governance. In 2008 the Bank adopted an internal code of corporate governance, which is based on the recommendations of the Abu Dhabi Securities Market and the Securities and Commodities Authority Decision on Corporate Governance Code (enacting certain corporate governance regulations), as well as international best practices.

During 2009, the Bank continued to implement its three-year programme, which was developed in conjunction with the International Finance Corporation, a member of the World Bank Group, to enhance the Bank's corporate governance.

At 31 December 2009, the Bank had achieved the following:

- appointment of the CEO as an Executive Director
- recruitment of Chief Risk Officer to focus on risk management
- induction programme for new Directors
- establishment or enhancement of the operations, and clarity of terms of reference, of management committees
- enhanced disclosures in the Bank's corporate governance web pages
- enhanced disclosures in the Bank's 2008 annual report
- performance evaluation of individual Directors and the Board of Directors
- adoption of various policies and procedures designed to ensure against conflict of interest, auditor independence, and other essential governance measures
- ongoing review of international developments in corporate governance and assessment of Bank's practices

External recognition

The Bank's achievements in corporate governance resulted, in November 2009, in the Bank winning the Hawkamah-UAB Corporate Governance Award as the best bank in the UAE.

ADCB was named top bank in GCC in terms of liquidity, volatility and transparency according to a survey conducted by TNI (The National Investor) and Hawkamah in 2009.

Code of conduct

ADCB has a code of conduct which applies to all employees in every country of its operations. It is available in English and Arabic.

Disclosure standards

In addition to the items mandated for public disclosure by the Securities and Commodities Authority's Regulations as to Disclosure and Transparency (as amended by Decision no. 75 Year 2004 and Decision no. 155 Year 2005) (the "Disclosure Regulations"), the Bank's corporate governance principles require the Bank to maintain high standards of disclosure and transparency.

In line with the Disclosure Regulations the Bank has created a website in order to provide information to stakeholders. The Bank's web address is www.adcb.com.

Communication with shareholders

In addition to the Bank's extensive disclosure through its annual report and website, the Chairman and the Bank's strategic relations department are in regular dialogue with the majority shareholders and ensure that the Board understands their views. Enquiries are welcomed from shareholders and other stakeholders concerning their shareholdings and the business of the Bank, and are dealt with in an informative and timely manner. In this regard, the Bank instituted a feedback form on its Investor Relations website page in 2009, which can be found at www.adcb.com/aboutus/investorrelations. All shareholders are encouraged to attend the annual general assembly or appoint proxies to attend and vote in their stead.

Investor relations

In 2008, the Bank set up the Investor Relations Department. In 2009, the Bank hired a new Head of Strategic Relations. These functions are responsible for, amongst other things:

- Investor and analyst relations
- Material disclosures to investors and key Bank stakeholders

Articles of association

The Bank's articles of association are available at www.adcb.com/about us/corporate governance.

Further details about ADCB's corporate governance can be found at www.adcb.com/about us

Corporate Social Responsibility

ADCB are pleased to present our Corporate Social Responsibility achievements, realized as an outcome of our commitment and constant support to CSR principles.

ADCB, as one of the UAE leading banks, is dedicated to being a world-class corporate citizen by delivering innovative products and services to our customers and outstanding returns with exceptional values to our shareholders. With every business and operation we do in ADCB, we endeavor to take our part in making the world a better place.

ADCB attempts to regularly and transparently communicate its CSR accomplishments, which the Bank prides itself of. In spite of the severe business environment witnessed during 2009, we still commit ourselves to Corporate Responsibility and strive to keep our vision clear and action evident. Corporate Responsibility for ADCB is not a separate behavior; it is an inseparable part of the Banks' operations and helps to accomplish sustainable business success.

ADCB in Community Support & Philanthropy

Blood Donation Drive organized by ADCB

ADCB in partnership with the Abu Dhabi Blood Bank launched a "Blood Donation Drive" that took place in August 2009, outside the ADCB Head Office in Al Salam Street. The drive was a success and the willingness of the donors to contribute towards saving lives was inspiring. Giving blood takes very little time and effort, yet it can really save a life.

ADCB's efforts to organize this initiative come as a result of the Bank's commitment towards the community as one of the Bank's core priorities. The initiative came in an attempt to further increase ADCB's contribution and constant support of the community it serves, drawing the people's attention to such important programme and increase awareness of the significance of blood donation.

The initiative was further supported by customers who have stepped up in expression of their awareness of the importance of such drive in helping the community.

ADCB partakes in ENDPOVERTY 2015 Millennium Campaign

As part of its commitment to support the community it serves, ADCB sponsored the "Stand Up & Take Action"; UN ENDPOVERTY 2015 millennium campaign. The "Stand Up & Take Action" Challenge for 2009 aims to bring attention to the issue of extreme poverty and hunger. Launched in 2006, as part of the United Nations Millennium Campaign, Stand Up challenges are organized around the world by governments and NGOs and aim at getting civilians to stand up on designated dates in support of the UN Millennium Development goals.

The three days allocated for this year's challenge were October 17th, 18th and 19th 2009. On each day, most of ADCB staff from different departments and branches across the UAE have gathered and stood up to read the pledge to uphold the campaign and inspire people from around the world to take action in support of the Millennium Development Goals.

ADCB is proud to be part of this global initiative, through which we confirm our dedication and commitment to support the campaign's goals to offer a cross-cutting framework for reporting on issues of poverty, development, health, education, environment, trade and debt relief.

ADCB contributes to the International Book Day

On the occasion of the World Book Day and out of its keenness to meet its social responsibilities and to disseminate awareness among young generations of our nation and the invaluable contributions of the late Shaikh Zayed bin Sultan Al Nahyan the founder of the modern state, ADCB sponsored one of the most inspiring and valuable books titled "Dad... Tell me about Zayed Al Khair..."

The book depicts the biography and life story of a great visionary leader who was able through strong will and undeterred determination to convert bare deserts into green heavens and to lead his nation to keep pace with the latest trends of contemporary civilization. The late Shaikh Zayed bin Sultan Al Nahyan had also left behind a legacy of footprints to be followed by the younger generations in their pursuit of prosperity and strength for their country.

The sponsorship of the publication and distribution of this book is a token of the Bank's appreciation and gratitude to the late great leader. It is an attempt to leverage the UAE younger generation's awareness of their history and introduce them to some of the uncountable landmarks characterizing the march of the late Shaikh Zayed bin Sultan Al Nahyan towards laying the foundations and pillars of an outstanding state.

The Bank distributed copies of this useful book to several authorities such as Ministry of Culture, Youth and Social Development, Abu Dhabi Educational Institution and Family Development Foundation in celebration of the World Book Day and in pursuit of the Bank's support of the cultural and literal movements.

Job Opportunities for UAE Nationals Offered by ADCB In Careers UAE 2009

ADCB participated in the Careers UAE; the 9th annual exhibition that took place at the Dubai International Convention and Exhibition Centre in March 2009. The exhibition was organized by the Dubai World Trade Centre, in cooperation with TANMIA, Emirates Nationals Development Programme, Higher Colleges of Technology, Zayed University, and UAE University.

Careers UAE Exhibition provided a favorable atmosphere for educational and training institutions and employers to discuss ways and means of matching up education and training outcomes to the actual needs of the labor market. Careers UAE Exhibition offered a viable platform for companies and institutions from both the private and public sectors to meet with and source the best talent available in the market.

The Bank's participation in Careers UAE 2009 underlines our constant dedication to creating job opportunities within the wide spread branches of the Bank for UAE Nationals with the right skills and qualifications. ADCB has always been proud of its steady strides in the implementation of its strategic plan to increase the percentage of the UAE National professional and talented employees among its personnel.

ADCB's recruiting officers were present at the exhibition to meet directly with all candidates and applicants willing to begin with ADCB in their career journey, offering them professional career advices and recommendations.

ADCB is committed to the Emiritization strategy, reflected by the Bank's numerous initiatives to attract, train and retain high caliber UAE Nationals across all levels of the Bank.

In Sustenance of Charity Causes & Humanitarian Efforts ADCB participates in "Knights of Giving" Drive

ADCB partook in the Ramadan Donations Campaign "Knights of Giving" launched by the Red Crescent Authority during Ramadan 2009 through the contribution of AED 100.000 to support the charity activities of the Red Crescent Authority in and outside the UAE. ADCB decided to donate this amount to uphold the humanitarian and charity activities of the Red Crescent in this Holy month of the year. This humanitarian campaign holds all the inspiring implications that are a true reflection of the spirit of mutual aid and collaboration in Islamic society, particularly in the Holy Month of Ramadan.

This initiative comes in line with the Bank's strategy to emphasize supporting humanitarian causes in the poor and developing countries by cooperation with the Red Crescent. The donation comes within the framework of the United Arab Emirates continuing efforts to help the afflicted and needy people in all countries in the world.

ADCB Upholds "Ramadan to Remember"

In line with its endeavors to support the community it serves, ADCB sponsored a Special Event for Orphans "A Ramadan to Remember" which took place throughout the entire month of Holy Ramadan at the Cristal Hotel Abu Dhabi.

The memorable Ramadan event for 25 children- full of fun, excitement and compassion was a good chance to give away something more valuable and true to the spirit of Ramadan. ADCB has always been a leader in supporting similar initiatives as part of its social responsibility. This sponsorship comes in the Holy month of Ramadan for the benefit of the orphans as an indication of the Bank's interest to support this category.

ADCB signs MOU with Red Crescent

"ADCB Meethaq", the Islamic Banking Division of ADCB and the Red Crescent tied up towards the launch of "ADCB Meethaq Islamic Credit Card"; the first of its kind in UAE with an objective to promote Social Responsibility.

ADCB Meethaq since its inception in September 2008 has positioned itself around responsible Banking through transparent Shari'ah compliance, solid values and a rounded belief in contributing to the greater good of our society.

With its highly anticipated product "the Islamic Credit Card", ADCB Meethaq has strengthened its ideology by positioning its Islamic credit card as a Socially Responsible Card by tying up with Red Crescent. The Proposition articulates that every card taken by a customer will secure a contribution to Red Crescent. Moreover each transaction made on the card will also render a contribution which will be given to Red Crescent. The unique aspect of this proposition is that all donations would be given by ADCB Meethaq from its own profit without any deduction from the cardholder's account.

ADCB Meethaq's promise to its customers is to ensure their banking experience remains at the highest level of quality, service and convenience while assuring the comfort of full Shari'ah compliance.

This offer makes ADCB Meethaq credit card the most powerful and complete credit card in the UAE. ADCB and Red Crescent would explore further avenues to strengthen the proposition through this partnership in future.

ADCB & Environment

"GREEN" ADCB Supports Earth Hour

ADCB played a part in the initiative to switch off the lights and equipment of its head office building located on Salam Street for a period of one hour on March 28th at 8:30 pm as a powerful message for a needful action against the threat of global warming.

ADCB's participation in the Earth Hour global initiative comes as a result of a series of activities that have been set to increase awareness on global warming and its effect on the environment while reducing our carbon footprint.

In realization of its social responsibility towards the community and the environment, ADCB decided to participate in the Earth Hour to encourage other organizations to take concrete steps reducing their impact on global warming which represents a huge issue facing all of us, much more needs to be done afterwards.

EAD and ADCB-IBD to Cooperate in Promoting Environmental Awareness

The Environment Agency-Abu Dhabi (EAD) and (ADCB Meethaq), the Islamic Banking Division of ADCB signed a Memorandum of Understanding in the field of environmental awareness. In line with the MoU, EAD will provide its expertise to ADCB to enhance the Bank's ability raising environmental awareness and promoting responsible consumerism amongst its clients. Awareness will be raised about the various challenges Abu Dhabi Emirate is facing and what people can do to help the environment.

ADCB's initiative reflects the Bank's commitment to protecting the environment and to contributing to the achievement of sustainable development within the Emirate of Abu Dhabi.

ADCB Meethaq has strengthened its ideology by positioning its Islamic credit card as a Socially Responsible Card promoting Humanitarian and Charitable Causes, Education, and most importantly prompting the customer to be environmentally responsible through deeds and actions. The offer positions our credit card as the first of its kind to be offered in the UAE, covering all aspects of the customer's material and social values.

The two organizations agreed to combine forces and implement a 6-month Green Investment awareness campaign. The campaign targets ADCB Meethaq credit card customers and other account holders to encourage them to contribute towards Green investment projects.

As part of the awareness & education campaign, customers would be educated on the impact their daily routine has on the environment. These messages would be communicated through multiple customer touch points and across various delivery channels. These include welcome kits containing recyclable leaflets, SMS messages, monthly statements via e mail and other regular collateral.

Moreover, the two organizations will jointly produce an educational booklet that helps to inform ADCB cardholders about environmentally friendly products available in the local market. Special offers at jointly identified merchant establishment will then be offered to ADCB customers to choose wisely and purchase those environmentally friendly products.

"GREEN" ADCB Supports Environment 2009 Exhibition & Conference

ADCB announced its sponsorship to the Environment 2009 Exhibition & Conference held under the patronage of His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the United Arab Emirates in January, 2009 at Abu Dhabi National Exhibition Centre. Environment 2009, the only comprehensive environment show in the region, provides an ideal platform to leverage substantial business opportunities presented by government measures to addressing environmental concerns.

In realization of ADCB's social responsibility towards the community in which the Bank operates, Abu Dhabi Commercial Bank decided to participate in the Environment 2009 Exhibition & Conference by sending out a green plant for each visitor to reflect ADCB's message of the importance of taking care of our environmental elements and growing our interest and awareness of the environmental issues. With the environment moving to our top priorities, ADCB found it fundamental to take part in this environmental knowledge exchange and business networking event.

ADCB Goes Green

As an environment friendly initiative from ADCB, the e-Statement services from ADCB@ctive Internet Banking has been launched. This free and secure service automatically sends the customer regular statements by email instead of through the post. By making the simple switch to e-Statements ADCB will be helping to save trees, which is great news for the environment.

ADCP Undertakes Green Initiative

During 2009, Abu Dhabi Commercial Properties had set about a plan to reduce electricity power costs, improve carbon footprint and operate a sustainable facility management service at ADCB properties. At the outset, energy saving solutions were implemented to be more efficient with the use of electricity power in the Bank's premises.

The plan included operating efficient light use, turning lights off out of hours, operating night time reduction on air conditioning usage, implementing downtime on illuminated signage, reducing footprint for printers and ensuring staff switch of PCs when not in the office.

The result of the initiative resulted in a reduction of over 30% in power usage at the ADCB head office at Al Salam Street.

The initiative was driven through all staff, accepting a sustainable outlook to efficient energy use for the benefit of not only the Bank but the community at large and the environment. This awareness forms part of the culture of ADCB staff. This drive dovetails with the reduction in paper usage and recycling of all paper waste which commenced in late 2008.

ADCB & Sports

ADCB sponsors Falcon Racing Team

Within the framework of its endeavors to endorse its role as a corporate citizen, ADCB sponsored the Falcon Racing team; the only Abu Dhabi based racing team (non-profit) in the UAE GT Championship (UAEGTC), the UAE's premier sports car championship took place in October 2009 at Dubai Autodrome. The growing championship with over 15 nationalities and over 35 cars represents the most direct link to the international racing ladder for aspiring sports car drivers.

ADCB's brand is not a completely new name in the sports life fields in the UAE. As early as 2005, ADCB was the main sponsor of Al Ain Football team throughout one of the most powerful seasons. This time the Bank prides itself to support the Falcon Team; the first and only team based in Abu Dhabi partaking in the UAE Touring Car Championship.

ADCB Sponsors Armed Forces Officers Club Tournament 2009

ADCB took the initiative to sponsor the Armed Forces Officers Club13th Ramadan Championship 2009 held during the Holy month of Ramadan 2009, where different international athletes participated representing their countries in such a prominent sports event.

ADCB is delighted to be associated with the Armed Forces Officers Club13th Ramadan Championship 2009 as part of our commitment to uphold the communities in which the Bank does business. This tournament is considered one of the few important sport events in the UAE.

ADCB in Economy

ADCB partakes in UAE Global Investment Forum

ADCB participated as a Co-Sponsor in the 2nd Annual UAE Global Investment Forum organized by Department of Planning and Economy – Abu Dhabi and Institutional Investor Conferences held in April 2009 at the Emirates Palace Hotel in Abu Dhabi.

The Forum provided a platform for the leaders of the UAE's businesses to meet and discuss how best to use the capital markets for their investment and financing needs. It also shaded light on the economic plans of the Government and the current investment opportunities now available in the UAE brought by the further diversification of our economy.

As a Co-Sponsor to this important event, ADCB aims to enhance the position of the United Arab Emirates as a major investment destination and to further expand the Banks' relations with potential associates and customers. ADCB considers itself partner to all ambitious development plans adopted by the Government, hence came the decision to participate in this leading event in the UAE and the region.

The UAE Global Investment Forum brought together over 400 international, regional and local investors with financial intermediaries, high-profile government officials and key decision makers from the UAE's leading companies to discuss prospects of industry, infrastructure and tourism as well as real estate investment opportunities in the regional and global markets.

ADCB sponsors the 9th Annual Business Groups Forum

ADCB sponsored the 9th Annual Abu Dhabi-based Business Groups Forum under the Patronage of General H.H. Sheikh Mohammed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces. The 9th Annual Business Groups Forum titled "Celebrating Culture over Time" and organized by the Abu Dhabi Chamber of Commerce & Industry in conjunction with the Palestinian and Canadian Business Groups was held in November, 2009 at the Rotana Beach Hotel in Abu Dhabi.

ADCB attempts through the sponsorship of this strategic event to boost the private-sector communities and businesses and enhance the Emirate's economic future to achieve sustainable growth in all fields.
Through partaking in this forum, ADCB endeavors to provide a platform for the business leaders, government officials, investors and experts from different countries of the world to meet and discuss different business opportunities in the UAE, boosting mutual relations and strengthening bonds of joint co-operation.

The convocation of the 9th session of this forum comes as a result of the considerable success of the previous 8 ones for the event that was first held in 2001. This year, members of 23 business councils side by side with representatives of government departments, private companies and public institutions met under the same roof for the sake of building new relations, exchanging views and experiences and discussing mutual objectives.

ADCB & Employees

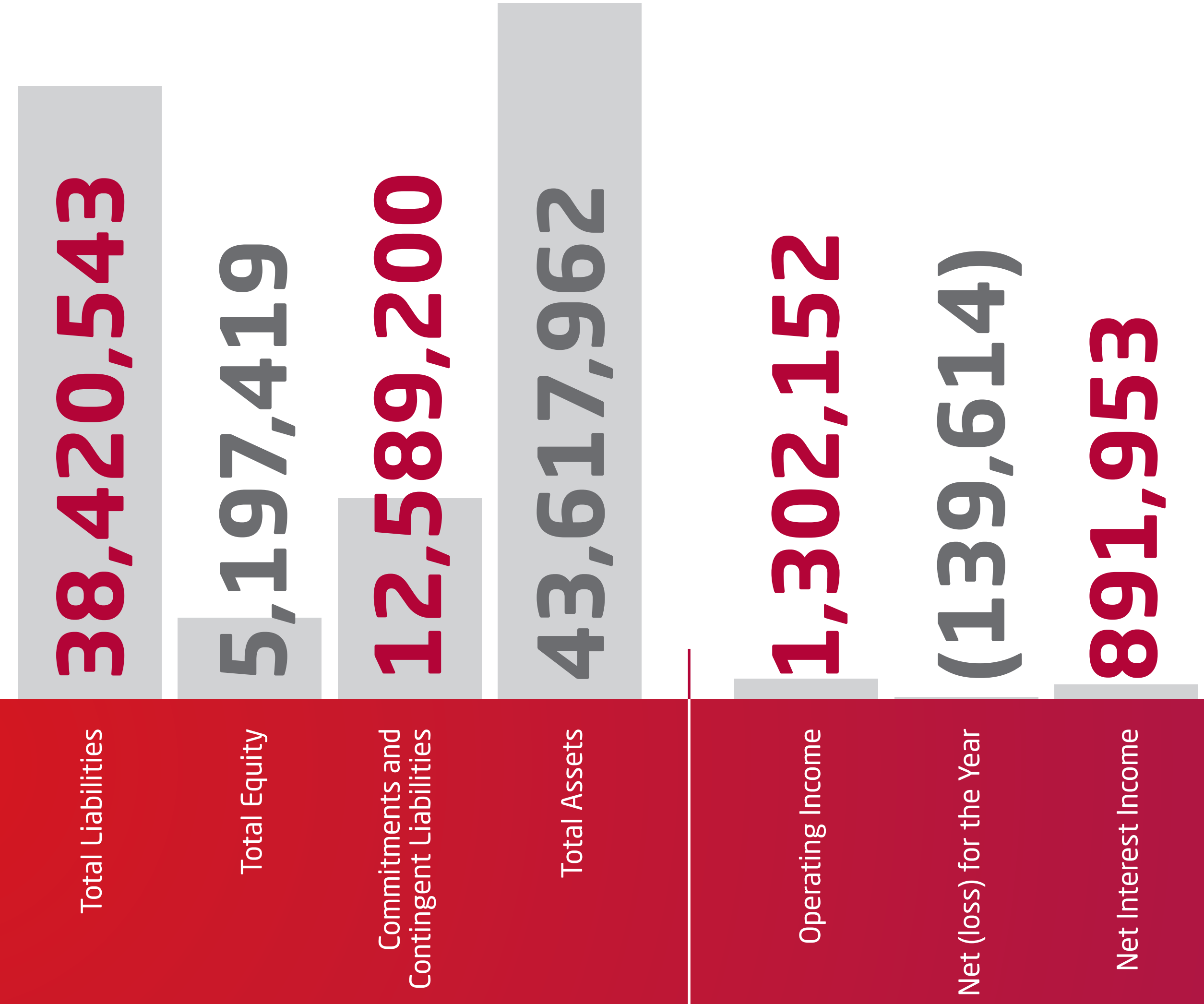
The Learning & Organizational Development Department within ADCB has undertaken many initiatives during the year 2009 to improve the staff skill base, satisfaction and motivation. One of the most important initiatives was the first ADCB Business Seminar held in June 2009, at the Head Office, for 45 managers from the talent pool. The purpose of the event was to provide these employees with the opportunity to further develop and broaden their market knowledge and understanding of ADCB, have their questions answered by business experts and meet colleagues from different parts of the organization. To name but a few of such employee development programmes, the Learning & Organizational Development Department held also Tatweer Workshop, Tafani 2009, Leadership Essentials and ADCB Workshop, which were attended by a number of ADCB employees who found the programmes valuable and enjoyable at the same time.

25th ANNIVERSARY

POSSIBILITIES STAY THAT WAY
UNTIL YOU DO SOMETHING
WITH THEM.

Report and consolidated financial statements

for the year ended December 31, 2009



Consolidated Statement of Financial Position

Consolidated Income Sheet

Figures in US$000's

Report and consolidated financial statements

for the year ended December 31, 2009

Independent Auditor's Report

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

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 statement of financial position as at December 31, 2009, and the consolidated income statement, other comprehensive income, statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 47 to 137.

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 in volves 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.

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, 2009, 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
January 26, 2010

ديلويت آند توش
ص.ب: ٩٩٠
ابوظبي - ا.ع.م
Abu Dhabi - U.A.E.
P.O.Box : 990
Deloitte & Touche

Consolidated statement of financial position

as at December 31, 2009

	Notes	2009 AED'000	2008 AED'000	2009 US$'000
ASSETS				
Cash and balances with Central Banks	6	4,139,015	3,911,009	1,126,876
Deposits and balances due from banks	7	18,348,988	17,528,422	4,995,641
Trading securities	8	86,561	-	23,567
Loans and advances, net	9	116,610,292	109,081,089	31,747,969
Derivative financial instruments	10	4,953,019	6,617,613	1,348,494
Investment securities	11	4,372,744	3,422,794	1,190,510
Investments in associates	12	4,582,659	4,427,529	1,247,661
Investment properties	13	549,492	632,492	149,603
Other assets	14	5,774,287	2,233,680	1,572,090
Property and equipment, net	15	791,721	575,841	215,551
Total assets		**160,208,778**	148,430,469	**43,617,962**
LIABILITIES				
Due to banks	16	4,738,201	6,905,263	1,290,008
Customers' deposits	17	86,299,957	84,360,821	23,495,768
Mandatory convertible securities – liability component	18	109,049	168,435	29,689
Short and medium term borrowings	19	28,921,804	28,427,189	7,874,164
Derivative financial instruments	10	4,689,489	6,778,893	1,276,746
Long term borrowings	20	8,619,494	2,139,359	2,346,718
Other liabilities	21	7,740,665	3,735,357	2,107,450
Total liabilities		**141,118,659**	132,515,317	**38,420,543**
EQUITY				
Share capital	22	4,810,000	4,810,000	1,309,556
Statutory and legal reserves	23	2,627,979	2,627,979	715,486
General and contingency reserves	23	2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	24	(13,438)	(25,708)	(3,659)
Foreign currency translation reserve		(353,736)	(392,022)	(96,307)
Proposed dividends	25	-	481,000	-
Cash flow hedge reserve		(107,360)	-	(29,229)
Cumulative changes in fair values		(194,279)	(625,014)	(52,894)
Retained earnings		1,467,983	2,147,431	399,669
Capital notes	26	4,000,000	-	1,089,028
Mandatory convertible securities – equity component	18	4,633,883	4,633,883	1,261,607
Equity attributable to equity holders of the parent		**19,021,032**	15,807,549	**5,178,610**
Non-controlling interest		**69,087**	107,603	**18,809**
Total equity		**19,090,119**	15,915,152	**5,197,419**
Total liabilities and equity		**160,208,778**	148,430,469	**43,617,962**
Commitments and contingent liabilities	37	**46,240,133**	50,295,199	**12,589,200**

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, 2009

	Notes	2009 AED'000	2008 AED'000	2009 US$'000
Interest income	27	6,897,823	5,945,910	1,877,980
Interest expense	28	(3,516,903)	(3,437,434)	(957,501)
Net interest income		**3,380,920**	2,508,476	**920,479**
Distribution to depositors	17	(104,777)	(27,865)	(28,526)
Net interest income net of distribution to distributors		**3,276,143**	2,480,611	**891,953**
Net fees and commission income	29	985,624	982,094	268,343
Net gain on dealing in derivatives		43,468	131,015	11,834
Net gains from dealing in foreign currencies	30	106,636	278,558	29,032
(Decrease)/increase in fair value of investment properties	13	(83,000)	178,148	(22,597)
Share of profit of associates	12	223,162	171,557	60,757
Net gain from trading and investment securities	31	71,578	78,565	19,488
Other operating income		152,564	78,675	41,537
Dividend income		6,631	11,076	1,805
Operating income		**4,782,806**	4,390,299	**1,302,152**
Staff expenses		(856,962)	(848,110)	(233,314)
Depreciation	15	(89,083)	(57,330)	(24,254)
Other operating expenses		(593,355)	(619,721)	(161,545)
Impairment allowances	32	(3,752,974)	(1,498,147)	(1,021,773)
Operating expenses		**(5,292,374)**	(3,023,308)	**(1,440,886)**
(Loss)/profit from operations before taxation		(509,568)	1,366,991	(138,734)
Overseas income tax expense	34	(3,231)	(8,518)	(880)
Net (loss)/profit for the year		**(512,799)**	1,358,473	**(139,614)**
Attributed to:				
Equity holders of the parent		(559,448)	1,236,592	(152,314)
Non-controlling interest		46,649	121,881	12,700
Net (loss)/profit for the year		**(512,799)**	1,358,473	**(139,614)**
Basic (loss)/earnings per share (AED/US$)	33	**(0.09)**	0.26	**(0.03)**

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

Consolidated statement of comprehensive income

for the year ended December 31, 2009

	2009 AED'000	2008 AED'000	2009 US$'000
Net (loss)/profit for the year	(512,799)	1,358,473	(139,614)
Exchange difference arising on translation of foreign operations	47,146	(421,285)	12,835
Net loss on hedge of net investment in foreign operation	(107,360)	-	(29,229)
Fair value changes reversed on sale of available for sale investments	182,953	11,608	49,810
Fair value changes on available for sale investments	258,762	(544,713)	70,450
Share in comprehensive income statement items of Associate (RHB Capital Berhad)	(19,840)	24,410	(5,401)
Board of Directors' remuneration	-	(4,750)	-
Net comprehensive (loss)/profit for the year	**(151,138)**	423,743	**(41,149)**
Attributed to:			
Equity holders of the parent	(197,787)	301,862	(53,849)
Non-controlling interest	46,649	121,881	12,700
Net comprehensive (loss)/profit for the year	**(151,138)**	423,743	**(41,149)**

Consolidated statement of changes in equity

for the year ended December 31, 2009

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cash flow hedge reserve AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Capital notes AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at January 1, 2009	**4,810,000**	**1,336,383**	**1,291,596**	**2,000,000**	**150,000**	**(25,708)**	**(392,022)**	**481,000**	**-**	**(625,014)**	**2,147,431**	**-**	**4,633,883**	**15,807,549**	**107,603**	**15,915,152**
Net (loss)/profit for the year	-	-	-	-	-	-	-	-	-	-	(559,448)	-	-	(559,448)	46,649	(512,799)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	47,146	-	-	-	-	-	-	47,146	-	47,146
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	-	-	-	(107,360)	-	-	-	-	(107,360)	-	(107,360)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	-	258,762	-	-	-	258,762	-	258,762
Fair value changes reversed on sale of available for sale investments	-	-	-	-	-	-	-	-	-	182,953	-	-	-	182,953	-	182,953
Share in comprehensive income statement items of associate (RHB Capital Berhad)	-	-	-	-	-	-	(8,860)	-	-	(10,980)	-	-	-	(19,840)	-	(19,840)
Total comprehensive profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**38,286**	**-**	**(107,360)**	**430,735**	**(559,448)**	**-**	**-**	**(197,787)**	**46,649**	**(151,138)**
Dividends paid	-	-	-	-	-	-	-	(481,000)	-	-	-	-	-	(481,000)	(88,480)	(569,480)
Issue of capital notes (Note 26)	-	-	-	-	-	-	-	-	-	-	-	4,000,000	-	4,000,000	-	4,000,000
Capital notes coupon paid	-	-	-	-	-	-	-	-	-	-	(120,000)	-	-	(120,000)	-	(120,000)
Shares – vested portion (Note 24)	-	-	-	-	-	12,270	-	-	-	-	-	-	-	12,270	-	12,270
Acquisition of subsidiary (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,315	3,315
Balance at December 31, 2009	**4,810,000**	**1,336,383**	**1,291,596**	**2,000,000**	**150,000**	**(13,438)**	**(353,736)**	**-**	**(107,360)**	**(194,279)**	**1,467,983**	**4,000,000**	**4,633,883**	**19,021,032**	**69,087**	**19,090,119**

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

Consolidated statement of changes in equity

for the year ended December 31, 2009 (continued)

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity 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
Net profit for the year	-	-	-	-	-	-	-	-	-	1,236,592	-	1,236,592	121,881	1,358,473
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(421,285)	-	-	-	-	(421,285)	-	(421,285)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	(544,713)	-	-	(544,713)	-	(544,713)
Fair value changes reversed on sale of available for sale investments	-	-	-	-	-	-	-	-	11,608	-	-	11,608	-	11,608
Share in comprehensive income statement items of associate (RHB Capital Berhad)	-	-	-	-	-	-	21,010	-	3,400	-	-	24,410	-	24,410
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)	-	-	-	-	-	-	-	-	(455)	455	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	-	-	-	-	(400,275)	-	(530,160)	1,232,297	-	301,862	121,881	423,743
Issue of mandatory convertible securities	-	-	-	-	-	-	-	-	-	-	4,633,883	4,633,883	-	4,633,883
Dividends paid	-	-	-	-	-	-	-	(400,000)	-	-	-	(400,000)	(128,509)	(528,509)
Bonus issue of shares	810,000	-	-	-	-	-	-	(810,000)	-	-	-	-	-	-
Shares granted (Note 24)	-	-	-	-	-	(38,131)	-	-	-	-	-	(38,131)	-	(38,131)
Shares – vested portion (Note 24)	-	-	-	-	-	12,423	-	-	-	-	-	12,423	-	12,423
Transfer to statutory reserve	-	123,659	-	-	-	-	-	-	-	(123,659)	-	-	-	-
Transfer to legal reserve	-	-	123,659	-	-	-	-	-	-	(123,659)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	481,000	-	(481,000)	-	-	-	-
Balance at December 31, 2008	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(25,708)	(392,022)	481,000	(625,014)	2,147,431	4,633,883	15,807,549	107,603	15,915,152

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

Consolidated statement of cash flow

for the year ended December 31, 2009

	2009 AED'000	2008 AED'000	2009 US$'000
OPERATING ACTIVITIES			
Net (loss)/profit before taxation and non-controlling interest	**(509,568)**	1,366,991	**(138,734)**
Adjustments for:			
Depreciation on property and equipment	89,083	57,330	24,253
Dividend income	(6,631)	(11,076)	(1,805)
Loss/(gain) on revaluation of investment properties	83,000	(178,148)	22,597
Allowance for doubtful loans and advances, net	3,077,563	934,722	837,888
Recovery of allowance for doubtful loans and advances	(109,248)	(176,282)	(29,743)
Impairment allowance on credit default swaps	244,550	443,637	66,580
Impairment allowance on investment securities	392,202	296,070	106,780
Impairment allowance on non-financial asset	90,734	-	24,703
Impairment allowance on Subsidiary goodwill write off	57,173	-	15,566
Net gain from trading and investment securities	(71,578)	(78,565)	(19,488)
Imputed interest on mandatory convertible securities	(59,386)	23,953	(16,168)
Share of profit of associates	(223,162)	(171,557)	(60,757)
Employees' incentive plan benefit expense	12,270	12,423	3,341
Operating profit before changes in operating assets and liabilities	**3,067,002**	2,519,498	**835,013**
(Increase)/decrease in due from banks	(431,367)	251,905	(117,443)
Increase in net trading derivative financial instruments	(72,656)	(813)	(19,781)
Increase in loans and advances	(10,414,205)	(34,338,965)	(2,835,340)
Decrease/(increase) in other assets	196,031	(476,269)	53,371
Increase/(decrease) in due to banks	1,445,543	(1,404,277)	393,559
Increase in customers' deposits	8,559,808	27,200,001	2,330,468
(Decrease)/increase in other liabilities	(333,983)	1,164,030	(90,929)
Cash from/(used in) operations	**2,016,173**	(5,084,890)	**548,918**
Board of Directors' remuneration paid	(4,750)	(4,750)	(1,293)
Overseas taxation (paid)/refund	(3,231)	18,868	(880)
Net cash from/(used in) operations	**2,008,192**	(5,070,772)	**546,745**
INVESTING ACTIVITIES			
Investments in associates	(73,460)	(4,635,578)	(20,000)
Dividend received from associates	65,103	-	17,725
Investment in subsidiary	(36,730)	-	(10,000)
Dividend income	6,631	11,076	1,805
Proceeds from sale of investments	1,418,064	1,301,316	386,078
Purchase of investments	(2,471,876)	(2,384,099)	(672,986)
Purchase of property and equipment, net	(311,096)	(154,798)	(84,698)
Net cash used in investing activities	**(1,403,364)**	(5,862,083)	**(382,076)**

	2009 AED'000	2008 AED'000	2009 US$'000
FINANCING ACTIVITIES			
Dividends paid to equity shareholders	(481,000)	(400,000)	(130,956)
Dividends paid to minority shareholders	(88,480)	(128,509)	(24,089)
Net proceeds from short and medium term borrowings	314,462	4,013,350	85,614
Interest paid on capital notes	(120,000)	-	(32,671)
Proceeds from issue of mandatory convertible securities	-	4,778,365	-
Proceeds from issue of capital notes	4,000,000	-	1,089,028
Employees' Incentive plan shares related payment	-	(38,131)	-
Net cash from financing activities	**3,624,982**	8,225,075	**986,926**
Increase/(decrease) in cash and cash equivalents	**4,229,810**	(2,707,780)	**1,151,595**
Cash and cash equivalents at the beginning of the year	**15,144,109**	17,851,889	**4,123,090**
Cash and cash equivalents at the end of the year (Note 35)	**19,373,919**	15,144,109	**5,274,685**

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

Notes to the consolidated financial statements

for the year ended December 31, 2009

1 Activities

Abu Dhabi Commercial Bank P.J.S.C. ("ADCB") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). ADCB carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its network of forty seven branches in the U.A.E., two branches in India, its subsidiaries, joint ventures and associates.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Salam Street, plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, U.A.E.

ADCB 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).

2 Adoption of new and revised standards

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 2.2.

- IAS 1 (as revised in 2007) *Presentation of Financial Statements*
  > AS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes inthe format and content of the financial statements.

- *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*
  > The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

- IFRS 8 *Operating Segments*
  > IFRS 8 is a disclosure standard that has resulted in re-designation of the Group's reportable segments (see Note 38).

2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*
  > The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.

- IAS 23 (as revised in 2007) *Borrowing Costs*
  > The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.

- Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
  > The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

- IFRIC 13 *Customer Loyalty Programmes*
  > The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.

- IFRIC 15 *Agreements for the Construction of Real Estate*
  > The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognised.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
  > The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

- IFRIC 18 *Transfers of Assets from Customers* (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009)
  > The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

- Improvements to IFRSs (2008)
  > 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 IFRSs* majority of which are effective for annual periods beginning on or after 1 January 2009.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

2 Adoption of new and revised standards (continued)

2.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
• IFRS 1 (revised) *First time Adoption of IFRS and IAS 27 (revised) Consolidated and Separate Financial Statements* – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 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*	1 July 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement* – Amendments relating to Eligible Hedged Items(such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 1 (revised) *First time Adoption of IFRS* – Amendment on additional exemptions for First-time Adopters	1 January 2010
• IFRS 2 (revised) *Share-based payment* – Amendment relating to Group cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) *Financial Instruments: Presentation* – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 *Related Party Disclosures* – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
• Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 *Annual Improvements to IFRSs.*	Majority effective for annual periods beginning on or after 1 January 2010

New Interpretations and amendments to Interpretations:	Effective for annual periods beginning on or after
• IFRIC 17: *Distributions of Non-cash Assets to Owners*	1 July 2009
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	1 January 2011
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives* relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	1 July 2009

The directors anticipate that these amendments will be adopted in the Bank's financial statements for the period beginning January 1, 2010 or when applicable. The directors have not yet had an opportunity to consider the potential impact of the adoption of these new standards and amendments.

3 Basis of preparation

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) and applicable requirements of the Laws of the U.A.E..

IFRSs comprise accounting standards issued by IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

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 Measurement

The consolidated financial statements have been prepared on the historical cost basis except as specified below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Investment properties are measured at fair value
- Recognised financial assets and financial liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

3.3 Presentation of information

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

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

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 5.

3.5 Consolidation

The 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 48. 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, generally conferred by holding a majority of voting rights. Subsidiaries are consolidated from the date that the Bank gains control until the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange, together with costs directly attributable to that acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

In the context of Special Purpose Entities (SPEs), the following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the Bank obtains benefits from the SPE's operation;

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

3 Basis of preparation (continued)

3.5 Consolidation (continued)

- the Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
- The Bank has the right to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- The Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and an SPE.

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity. Information about the Funds managed by the Bank is set out in Note 47.

The consolidated financial statements also include the attributable share of the results and reserves of joint ventures and associates.

The financial statements of the entities included in consolidation are prepared for the same reporting period as that of the Bank, using consistent accounting policies. All significant inter-company balances, income and expense (except for foreign currency transaction gains or losses) items are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interest in subsidiaries are identified separately from the Bank's equity therein. The interest of non-controlling shareholders is measured as the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interest represents the portion of profit or loss for the year and portion of net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately under the headings 'Non-controlling interest' in the consolidated financial statements, except for losses attributable to the non-controlling shareholders in Abu Dhabi Risk and Treasury Solutions L.L.C., as stated in Note 48.

4 Significant accounting policies

4.1 Due from banks

Due from banks are stated at cost less any amounts written off and allowance for impairment.

4.2 Loans and advances, net

Loans and advances to banks and customers include loans and advances originated by the Bank which are not classified either as available-for-sale or as held for trading or designated at fair value through profit and loss. They are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They are recognised when cash is advanced to borrowers and derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Loan impairment

Losses for impaired loans and advances are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on group of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance account. Losses expected from future events are not recognised.

Individually assessed loans and advances

Individually assessed loans mainly represent individually significant corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. The Bank assesses whether there is any objective evidence that a loan is impaired for each of these loans on a case-by-case basis at each statement of financial position date.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- The Bank's aggregate exposure to the customer
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- The amount and timing of expected receipts and recoveries
- The likely dividend available on liquidation or bankruptcy
- The extent of other creditors' commitments ranking ahead of, or pari passu with, the Bank and the likelihood of other creditors continuing to support the company
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession
- The likely deduction of any costs involved in recovery of amounts outstanding

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses that have not been incurred, including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line impairment allowances. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogenous groups of loans that are not considered individually significant.

Incurred but not yet identified

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the statement of financial position date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are removed from the group of the customer and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product)
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan
- Management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of financial position date is likely to be greater or less than that suggested by historical experience

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

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

Write-off of loans and advances

A loan and advance (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.2 Loans and advances, net (continued)

Reversal of impairment (continued)

written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

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 for measurement purposes once the minimum number of payments required under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated loan and this classification is retained until maturity or derecognition.

4.3 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 less costs to sell at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

4.4 Trading and Investment Securities

Trading and investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for based on their classification.

Bank's investments are classified into the following categories depending on the nature and purpose of the investment:

i) Trading securities which include investments at fair value through profit or loss (FVTPL)
ii) Investment securities which include available for sale (AFS) and held-to-maturity investments (HTM)

Fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in income statement.

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 initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis. 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.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective interest rate, with the resulting impairment loss, if any, in the consolidated income statement.

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 "fair value through profit or loss" or "held to maturity" are classified as "available for sale".

Available for sale investments are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in other comprehensive income statements and recorded in 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.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in equity Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.4 Trading and Investment Securities (continued)

Reclassifications

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of investment securities

The Bank derecognises a investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4.5 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. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain in dealing in derivatives.

When derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in highly probable future cash flows attributable to a particular risk with a recognised asset or liability, or a forecast transaction that will affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

At the inception of a hedging relationship, to qualify the hedge accounting , the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

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 consolidated statement of other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. 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 non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any 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.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operation.

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Bank adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent.

Hedge ineffectiveness is recognised in the consolidated income statement in 'Net gain on dealing in derivatives'.

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 in net gain on dealing in derivatives.

4.6 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.

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 statement of financial position 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, at least annually, as part of that investment. Any excess of the Bank's share of the net fair

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.6 Investments in associates (continued)

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.

4.7 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying amounts of its non-financial 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.

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.

4.8 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position 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.

4.9 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 to income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are 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 (including computer software)	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.

4.10 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.

4.11 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4.12 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.

4.13 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 (the customers) 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.

4.14 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.

4.15 Equity instruments

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:
  - (i) to deliver cash or another financial asset to another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
  - (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
  - (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.16 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. and GCC citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

4.17 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. 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.

4.18 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos), are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under short and medium term borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are included in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised on the statement of financial position or lent securities derecognised. Cash collateral received or given is treated as a loan or deposit; collateral in the form of deposit is not recognised. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded.

4.19 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 statement of financial position 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.

4.20 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 guarantee contracts are initially recognised at their fair value, which is likely to equal 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.

4.21 Recognition and de-recognition of financial instruments

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. The transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible (Note 9).

4.22 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 statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.23 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.24 Employees' incentive plan shares

The Bank grants equity-settled share-based payments to employees. These grants will be settled in Abu Dhabi Commercial Bank P.J.S.C.'s shares and are measured at the fair value of the equity instruments at the grant date.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.24 Employees' incentive plan shares (continued)

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 the end of each reporting period, 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.

4.25 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position 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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on gross basis.

4.26 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.

4.27 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 38 on Business Segment reporting.

4.28 Taxation

Provision is made for taxes at rates enacted or substantively enacted by the statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the countries in which the Bank operates. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purpose and its carrying amount for tax purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

4.29 Revenue and expense recognition

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value are recognised in 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently the interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee income is earned from a diverse range of services provided by the Bank to its customers. Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third-party, such as the arrangement for the acquisition of shares or other securities)
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees)
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'interest income'

Gain or loss on trading and investment securities comprises all unrealised gains and losses from changes in the fair value of held for trading securities and realised gains or losses on disposal of investment securities. Gain or loss on disposal of 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 net of impairment if any, less associated selling costs.

Dividend income is recognised when the right to receive payment is established.

Murabaha financing

Profit from sales transactions (murabaha) is recognised when the ultimate income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised by proportionately allocating the attributable profits over the period of the credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash is recovered. Income related to non-performing is excluded from the statement of income.

Ijara financing

Ijara income is recognised proportionately to the financial periods over the lease term. Ijara financing is an agreement whereby the Bank (lessor) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

Salam Financing

Revenue in Salam Financing is recognised upon delivery of goods. Salam Financing is recognised as an asset when the cash, kind or benefit is paid in advance to the seller for the delivery of the commodity in future.

4.30 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.30 Foreign currencies (continued)

comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

5 Critical accounting judgements and key sources of estimation of uncertainty

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS require the management, in preparing the Bank's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Bank's accounting policies that are considered by the Board of Directors to be the most important to the portrayal of its financial condition are discussed below the use of estimates,

assumptions or models that differ from those adopted by the Bank would affect its reported results.

5.1 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.

5.1.1 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 and commercial 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 fully current and the collection of scheduled interest and principal is considered probable.

5.1.2 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.

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 statement of financial position date.

5.2 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.

5.3 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.

5.4 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.

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.

5.5 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, 2009 (continued)

	2009 AED'000	2008 AED'000
6 Cash and balances with Central Banks		
Cash on hand	470,374	509,628
Balances with Central Banks	3,668,641	3,151,381
Certificate of deposits with Central Bank	-	250,000
	4,139,015	3,911,009
The geographical concentration is as follows:		
Within the U.A.E.	4,113,522	3,890,266
Outside the U.A.E.	25,493	20,743
	4,139,015	3,911,009
7 Deposits and balances due from banks		
Current and demand deposits	195,154	143,247
Murabaha placements	71,000	586,000
Placements	18,082,834	16,799,175
	18,348,988	17,528,422
The geographical concentration is as follows:		
Within the U.A.E.	5,719,958	6,910,198
Outside the U.A.E.	12,629,030	10,618,224
	18,348,988	17,528,422
8 Trading securities		
Quoted – Equity instruments	86,561	-

The geographical concentration is as follows:

Trading securities	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Quoted – Equity instruments	**6,962**	**67,125**	**12,474**	**86,561**

Trading securities represent equity investments held by ADCB MSCI Arabian Markets Index Fund, a subsidiary of the Bank 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 value of these investments is based on quoted market prices.

	2009 AED'000	2008 AED'000
9 Loans and advances, net		
Overdrafts (Retail and Corporate)	15,537,675	22,376,570
Retail loans	13,642,012	11,376,290
Corporate loans	87,781,570	74,777,891
Credit cards	1,442,136	1,138,426
Islamic financing	1,530,043	46,188
Other facilities	909,113	1,355,735
	120,842,549	111,071,100
Less: Allowance for impairment	**(4,232,257)**	(1,990,011)
	116,610,292	109,081,089

The Bank's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of United Arab Emirates and Basel II guidelines is as follows:

Risk Category	
Performing loans	Up to 30 days past due
Overdue but not impaired loans	Between 31 and 90 days past due
Non performing loans	Over 91 days past due

The risk classification of loans and advances are as follows:

	2009 AED'000	2008 AED'000
Performing loans	110,352,702	104,615,487
Over due but not impaired loans	4,248,171	5,195,330
Non performing loans	6,241,676	1,260,283
	120,842,549	111,071,100
Less: Allowance for impairment	**(4,232,257)**	(1,990,011)
	116,610,292	109,081,089

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

9 Loans and advances, net (continued)

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 495,150 thousand (2008 – AED 545,400 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were 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 17).

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. The Bank carries all collaterals at cost except for listed securities, which are being fair valued through a separate share lending system. The carrying value of these collaterals at December 31, 2009 approximates to AED 102,336,086 thousand (2008 - AED 77,922,451 thousand).

During the year, the Bank has started fair valuation exercise whereby around fifty percent of its mortgage collaterals were fair valued through external evaluators to assess and estimate that the fair value approximates carrying value.

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

	2009			2008		
	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	930,739	1,059,272	1,990,011	716,492	433,465	1,149,957
Charge for the year	2,618,562	459,001	3,077,563	292,079	642,643	934,722
Recoveries	(109,248)	-	(109,248)	(176,282)	-	(176,282)
Net amounts written (off)/back	(713,311)	(13,509)	(726,820)	105,193	(16,403)	88,790
Currency translation	661	90	751	(6,743)	(433)	(7,176)
At December 31	**2,727,403**	**1,504,854**	**4,232,257**	930,739	1,059,272	1,990,011

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

	2009			2008		
	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	10,831	-	10,831	13,743	-	13,743
Energy	3,108,411	247,967	3,356,378	468,815	218,107	686,922
Trading	1,161,429	313,138	1,474,567	1,559,923	638,664	2,198,587
Contractor finance	2,992,583	740,156	3,732,739	3,629,917	650,573	4,280,490
Development & construction	18,565,551	-	18,565,551	16,189,232	-	16,189,232
Real Estate investment	10,289,688	-	10,289,688	7,199,661	-	7,199,661
Transport	3,525,066	201,205	3,726,271	3,679,115	214,223	3,893,338
Personal	5,643,364	301,417	5,944,781	6,708,469	299,492	7,007,961
Personal – Retail loans	16,319,076	7,738	16,326,814	14,322,574	8,867	14,331,441
Personal – Loans against securities trading	13,548,826	-	13,548,826	14,427,247	-	14,427,247
Government	1,568,521	-	1,568,521	3,137,112	-	3,137,112
Financial institutions	5,004,461	2,325,129	7,329,590	11,137,108	2,498,786	13,635,894
Manufacturing	2,459,748	118,373	2,578,121	1,791,468	277,038	2,068,506
Services	27,316,443	5,031,395	32,347,838	16,319,259	4,922,047	21,241,306
Others	42,033	-	42,033	759,660	-	759,660
	111,556,031	**9,286,518**	**120,842,549**	101,343,303	9,727,797	111,071,100
Less: Impairment allowance			**(4,232,257)**			(1,990,011)
Total			**116,610,292**			109,081,089

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

10 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that are effected by variables in the underlying instruments and subject to changes in the underlying instruments. 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.

Forward transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable 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 loss if counterparties fail to fulfill 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).

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

	Assets AED'000	**Liabilities AED'000**
At December 31, 2009		
Derivatives held for trading		
Forward foreign exchange contracts	687,618	688,361
Interest rate swaps and forward rate agreements	3,479,411	3,459,607
Options	267,054	265,910
Futures	5,309	3,790
Commodity forwards	34,579	20,062
Energy swaps	21,289	20,888
	4,495,260	4,458,618
Derivatives held for hedging	457,759	230,871
	4,953,019	**4,689,489**

	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	414,927	540,193
	6,617,613	6,778,893

The derivatives held for hedging consist of interest rate swaps, cross currency swaps and foreign exchange forward contracts.

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 are predominantly related 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 initiate 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. 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 based on type of the hedge.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

11 Investment securities

	2009			
	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)	-	-	58,644	58,644
Collateralised debt obligations (CDOs)	-	-	210,706	210,706
Equity instruments	13,011	-	335	13,346
Bonds	1,837,706	2,057	52,046	1,891,809
Government securities	402,542	379,000	313,783	1,095,325
Total Quoted	**2,253,259**	**381,057**	**635,514**	**3,269,830**
Unquoted:				
Floating rate notes (FRNs)	-	-	144,988	144,988
Equity instruments	229,128	-	66	229,194
Bonds	687,319	-	-	687,319
Mutual funds	41,413	-	-	41,413
Total Unquoted	**957,860**	**-**	**145,054**	**1,102,914**
Total available for sale investments	**3,211,119**	**381,057**	**780,568**	**4,372,744**

Bonds in Quoted investment include Bonds of fair value AED 547,821 thousand in public sector companies.

During the year, the Bank entered into repurchase agreements and total return swap agreements whereby Bonds with carrying value of AED 1,194,765 thousand were pledged and held by counter parties as collateral. The following table reflects the carrying value of these Bonds and the associated financial liabilities as at December 31, 2009.

	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Total return swaps	616,521	636,394
Repurchase financing	578,244	440,760
	1,194,765	**1,077,154**

	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)	-	-	69,738	69,738
Collateralised debt obligations (CDOs)	-	-	290,620	290,620
Equity instruments	89,620	-	326	89,946
Bonds	912,124	2,057	-	914,181
Mutual funds	71,283	-	-	71,283
Government securities	72,377	105,782	281,509	459,668
Total Quoted	1,145,404	107,839	642,193	1,895,436
Unquoted:				
Floating rate notes (FRNs)	-	-	150,380	150,380
Equity instruments	342,486	-	94	342,580
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

The movement in investment securities for the year 2009 is as follows:

	Available for sale AED'000
Fair value at January 1, 2009	3,422,794
Acquisitions	2,471,876
Disposals	(762,386)
Maturities	(697,722)
Fair value adjustments	441,715
Investments written off during the year	(87,529)
Transfer from investment in associate (Note 12)	80,000
Transfer to investment in associate (Note 12)	(116,325)
Elimination upon acquisition of controlling interest in an investment (Note 48)	(100,000)
Exchange difference	6,398
Impairment allowance	(286,077)
Balance at December 31, 2009	**4,372,744**

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

11 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
Acquisitions	2,477,760	-	2,477,760
Transfers	53,887	(53,887)	-
Disposals	(1,051,304)	-	(1,051,304)
Maturities	(157,939)	-	(157,939)
Fair value adjustments	(519,557)	-	(519,557)
Investments written off during the year	-	(14,740)	(14,740)
Exchange difference	2,924	-	2,924
Impairment allowance	(282,538)	-	(282,538)
Balance at December 31, 2008	3,422,794	-	3,422,794

The movement in impairment allowance is as follows:

	2009 AED'000	2008 AED'000
Opening Balance	410,609	493,535
Charge for the year	540,109	296,070
Reversal on disposal of available for sale investments	(254,032)	(13,532)
Exchange difference	1,067	-
Investments written off	(271,676)	(365,464)
Balance at 31 December	**426,077**	**410,609**

During 2008 the Bank reclassified financial asset from the held-for-trading category into the available-for-sale category. This reclassification is made in accordance with paragraph 50B of IAS 39 as amended. The turbulence in the financial markets during the second half of 2008 was regarded by management as rare circumstances in the context of paragraph 50B of IAS 39 as amended. This financial asset represents investment in fund that provides the Bank with an opportunity of return through dividend incomes and trading gains. It does not have fixed maturity or coupon rate. The fair value is determined by the Fund's managers based on the net asset value. The fair value of the reclassified financial assets, at the date of reclassification, was AED 116,325 thousand and at June 30, 2009 was AED 34,099 thousand. The fair value loss on this financial asset at June 30, 2009 amounting to AED 82,283 thousand (December 31, 2008 – AED 88,992 thousand) was recognised under cumulative changes in fair values in the consolidated statement of comprehensive income. With effect from June 30, 2009, the Bank increased its interest and gained significant influence on this financial asset and the financial asset was transferred from investment available-for-sale to investment in associates (Note 12). The cumulative fair value loss on this financial asset from initial reclassification date has been reclassified from other comprehensive income to the consolidated income statement.

With effect from June 30, 2009, the Bank increased its interest and gained significant influence on ADCB MSCI Index Fund. The Fund was transferred from investment available-for-sale to investment in associates (Note 12). The cumulative fair value loss on the fund amounting to AED 4,649 thousand has been reclassified from other comprehensive income to the consolidated income statement.

During the year, the Bank gained control in ADCB MSCI Arabian Markets Index Fund through increase in stake in the unit capital of the fund. On the date of acquisition of the controlling interest the fair value of investment in the fund was AED 79,557 thousand with cumulative loss recognised in other comprehensive income amounting to AED 57,173 thousand. As a result of the acquisition of the controlling interest, the cumulative fair value loss amounting to AED 57,173 thousand has been reclassified from other comprehensive income to income statement. The Bank's effective holding in the fund as at December 31, 2009 is 96% (Note 48).

The investment securities include Structured Finance Assets, such as Collateralised Debt Obligations (CDOs), and Cash flow 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., Western Europe and Asia.

The nominal value and fair value of these securities at December 31, 2009 amounted to AED 933,249 thousand and AED 414,338 thousand respectively (2008 - AED 1,243,259 thousand and AED 510,738 thousand respectively). These securities have been negatively impacted by the global financial crisis and subsequent recession that stemmed from the U.S.A. subprime situation, corporate credit events and corporate insolvencies in both the U.S.A. and Europe, as well as ongoing liquidity shortages. The continued uncertainty in long-term outlook for the global economy and increased volatility in credit default spreads also continues to negatively impact fair values. The above exposure is net of collective impairment allowance amounting to AED 404,663 thousand (2008 - AED 400,300 thousand) against the total above exposure.

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

The Bank originally appointed two independent advisors of international repute to act as asset managers and advisors to the portfolio of structured investments. During 2009, the Bank consolidated the advisory mandate with one of them.

The investment advisor advises on restructuring as well on potential divestments and provides the assessments of the realisable economic value of these securities.

The investment advisor uses 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.

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-collateralisation 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.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

12 Investments in associates

Name of associate	2009 AED'000	2008 AED'000
RHB Capital Berhad	4,474,784	4,327,529
Abu Dhabi Finance P.J.S.C.	-	100,000
Al Nokhitha Fund	73,150	-
ADCB MSCI U.A.E. Index Fund	34,725	-
Carrying value	**4,582,659**	4,427,529

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

Name of associate	Principal activities	Country of incorporation	Ownership Interest 2009	Ownership Interest 2008
(a) RHB Capital Berhad	Wholesale, retail and Islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	25%	25%
(b) Abu Dhabi Finance P.J.S.C.	Mortgage finance.	U.A.E.	-	20%
(c) Al Nokhitha Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market and in any other recognised stock exchanges of the GCC countries.	U.A.E.	22%	-
(d) ADCB MSCI U.A.E. Index Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market, Dubai International Financial Exchange determined by MSCI UAE Index ("Index Securities").	U.A.E.	30%	-

(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 Berhad, 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 5.4 and determined that no impairment has occurred.

The Bank's share of profit of associate is adjusted for amortisation of tangible and intangible assets identified during goodwill assessment and also appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRS.
The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at December 31, 2009 amounted to AED 3,061,303 thousand (2008 – AED 2,233,736 thousand).

At December 31, 2009, the Bank partially hedged its currency translation risk in net investment in RHB Capital Berhad through foreign exchange forward contracts and designated these contracts as hedging derivatives. The hedging instruments resulted in losses of AED 107,360 thousand which have been recognised in other comprehensive income. No amounts are withdrawn from equity during the year as there was no disposal of net investment in associate.

(b) In 2008, the Bank contributed to the extent of 20% of equity in Abu Dhabi Finance P.J.S.C., United Arab Emirates ("Associate"). The principal activities of the Associate is mortgage finance. During the period, the Bank disposed 4% of its investment in Abu Dhabi Finance P.J.S.C., reducing the Bank's equity stake to 16%. The transaction has not resulted in any gain or loss on disposal and accordingly, the investment has been transferred to available-for-sale investments at its carrying value.

(c) With effect from June 2009, the Bank increased its ownership interest in Al Nokhita Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – Al Nokhitha Feeder Fund.

(d) With effect from June 2009, the Bank increased its ownership interest in ADCB MSCI U.A.E. Index Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – MSCI UAE Index Fund Feeder Fund.

The latest available financial information in respect of Bank's associates are summarised as follows:

	2009 AED'000	2008 AED'000
Total assets	117,660,417	111,212,413
Total liabilities	108,334,766	102,870,437
Net assets	**9,325,651**	8,341,976
Total interest and other operating income	**4,357,319**	3,665,193
Total profit for the period	**997,564**	1,116,834

13 Investment properties

	2009 AED'000	2008 AED'000
At January 1	632,492	445,730
Transfer in from property and equipment, net	-	8,614
(Decrease)/increase in fair value of investment properties	(83,000)	178,148
At December 31	**549,492**	632,492

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, 2009. All the investment properties of the Bank are located within the U.A.E.

14 Other assets

	2009 AED'000	2008 AED'000
Interest receivable	607,052	797,460
Withholding tax	37,743	17,795
Prepayments	121,985	145,915
Clearing receivables	106	70,562
Acceptances	4,631,510	887,669
Others	375,891	314,279
	5,774,287	2,233,680

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

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

15 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, 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	135,966	152,816
Transfers	6,895	7,404	13,887	28,477	(52,550)	4,113
Transfer to expenses	-	-	-	-	(2,365)	(2,365)
Transfer to investment properties	(24,821)	-	-	-	-	(24,821)
At January 1, 2009	**395,577**	**64,857**	**117,664**	**223,085**	**120,310**	**921,493**
Exchange difference	-	-	463	17	-	480
Additions during the year	5,510	141	2,642	7,494	295,309	311,096
Transfers	5,074	12,778	12,694	108,917	(139,463)	-
Transfer to expenses	-	-	-	-	(2,741)	(2,741)
Disposals during the year	(176)	(1,562)	(1,706)	(1,221)	-	(4,665)
At December 31, 2009	**405,985**	**76,214**	**131,757**	**338,292**	**273,415**	**1,225,663**
Accumulated depreciation						
At January 1, 2008	132,524	17,582	55,194	100,113	-	305,413
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 January 1, 2009	**131,276**	**23,167**	**66,449**	**124,760**	**-**	**345,652**
Exchange difference	(4)	-	215	17	-	228
Charge for the year	15,912	6,591	14,842	51,738	-	89,083
Disposals during the year	(12)	-	(493)	(516)	-	(1,021)
At December 31, 2009	**147,172**	**29,758**	**81,013**	**175,999**	**-**	**433,942**
Carrying amount						
At December 31, 2009	**258,813**	**46,456**	**50,744**	**162,293**	**273,415**	**791,721**
At December 31, 2008	264,301	41,690	51,215	98,325	120,310	575,841

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

	2009 AED'000	2008 AED'000
16 Due to banks		
Current and demand deposits	523,878	998,342
Deposits - banks	4,214,323	5,906,921
	4,738,201	6,905,263
17 Customers' deposits		
By category:		
Call and demand deposits	17,510,668	14,653,828
Savings deposits	1,271,803	1,230,648
Time deposits	56,607,806	64,438,702
Long term government deposits (Note 9)	495,150	545,400
Islamic product related deposits	7,266,047	2,115,062
Euro commercial papers	3,148,483	1,377,181
	86,299,957	84,360,821
By sector :		
Retail	20,682,752	15,489,461
Corporate	43,579,493	38,690,102
Government	22,037,712	30,181,258
	86,299,957	84,360,821

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

Islamic related product deposits include the following:

	2009 AED'000	2008 AED'000
Product		
Mudaraba savings and deposits	4,899,358	158,697
Wakala deposits	757,972	1,937,984
Wadiah	1,608,717	18,381
	7,266,047	2,115,062

Profit distributed to Wakala deposit holders during the year amounted to AED 104,777 thousand (2008 – AED 27,865 thousand).

Profit distribution for Investment Account Holders

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.

18 Mandatory convertible securities

During 2008, 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 49). 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:

	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**

	2009 AED'000	2008 AED'000
Liability component	168,435	144,482
Interest expense for the year	153,296	168,106
Interest paid during the year	(212,682)	(144,153)
	109,049	168,435

The interest charged for the year is calculated by applying an effective interest rate of 2.08 % p.a. (2008 – 7.80%). The liability component is measured at amortised cost.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

19 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2009 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	164,605	-	164,605
	Hong Kong Dollar (HKD)	-	142,092	-	142,092
	Japanese Yen (JPY)	-	198,734	-	198,734
	Pound Sterling (GBP)	-	2,950,337	-	2,950,337
	Slovak Koruna (SKK)	-	131,401	-	131,401
	South African Rand (ZAR)	-	49,652	-	49,652
	Swiss Franc (CHF)	532,396	1,064,792	-	1,597,188
	Singapore Dollar (SGD)	379,645	-	-	379,645
	U.A.E. Dirham (AED)	900,000	1,300,000	1,253,000	3,453,000
	US Dollar (US$)	3,746,460	73,460	3,673,000	7,492,920
		5,558,501	6,075,073	4,926,000	16,559,574
Syndicated loans	US Dollar (US$)	3,291,008	3,789,801	3,739,849	10,820,658
Borrowings through total return swaps	US Dollar (US$)	-	-	402,194	402,194
	U.A.E. Dirham (AED)	-	-	234,200	234,200
Borrowings through repurchase agreements	US Dollar (US$)	-	-	440,760	440,760
		8,849,509	9,864,874	9,743,003	28,457,386
Fair value adjustment on short and medium term borrowings being hedged					**464,418**
					28,921,804

Included in short and medium term borrowings is a carrying amount of AED 2,523,792 thousand which have been hedged using cross currency swaps.

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	3-5 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
	UAE Dirham (AED)	4,160,000	-	1,253,000	5,413,000
	US Dollar (US$)	238,745	3,783,190	-	4,021,935
		4,655,111	8,630,633	1,640,988	14,926,732
Syndicated loans	US Dollar (US$)	1,819,972	3,474,658	6,978,700	12,273,330
	Euro (EUR)	820,372	-	-	820,372
		7,295,455	12,105,291	8,619,688	28,020,434
Fair value adjustment on short and medium term borrowings being hedged					406,755
					28,427,189

Included in short and medium term borrowings is a carrying amount of AED 2,762,537 thousand which have been hedged using cross currency swaps.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

19 Short and medium term borrowings (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rates as at December 31, 2009 are as follows:

Currency	Within 1 year	1-3 years	3-5 years
AUD	-	3 months AUD-BBSW plus 30 basis points	-
HKD	-	3 months HIBOR offer rate plus 29 to 35 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	-	-
AED	3 months EIBOR plus 200 basis points	3 months EIBOR plus 250 basis points	Fixed rate of 6% p.a
US$	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 35 basis points	3 months LIBOR plus 30 to 110 basis points	Fixed rate of 4.75% 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 185 basis points over 3 months LIBOR. 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 months LIBOR.

The Bank also has an unsecured standby facility of US$ 25,000 thousand (December 31, 2008 – US$ 175,000 thousand) from a consortium of banks with a drawdown period of six months.

20 Long term borrowings

Instrument	Currency	2009 AED'000	2008 AED'000
Unsecured notes	Turkish Lira (TRY)	90,204	88,527
	U.A.E. Dirham (AED)	500,000	500,000
	US Dollar (US$)	73,460	73,460
		663,664	661,987
Subordinated floating rate notes	US Dollar (US$)	1,328,891	1,469,200
Tier II loan	U.A.E. Dirham (AED)	6,617,456	-
Fair value adjustment on long term borrowings being hedged		9,483	8,172
		8,619,494	2,139,359

Interest on unsecured notes are payable in arrears and the coupon rates as at December 31, 2009 are as follows:

Currency	Over 5 years
TRY	Fixed rate of 12.75% p.a.
AED	Fixed rate of 6% p.a.
US$	Fixed rate of 5.3875% p.a.

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 months LIBOR. The subordinated floating rate notes were obtained from financial institutions outside the U.A.E. and qualify as Tier II 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 49) if these are not redeemed during 2011. This has been approved by the Central Bank of the U.A.E..

Tier II loan

In 2008, the U.A.E. federal government provided liquidity support in the form of new government deposits to the U.A.E.'s major commercial banks, including ADCB. Late in 2008, the U.A.E. federal government made an offer to convert these deposits into Tier II qualifying loans. In March 2009, the Bank accepted this offer to convert approximately AED 6,617,456 thousand government deposits into Tier II qualifying loans. As per this offer, the Tier II qualifying loan will mature seven years from the date of the issue and will carry interest rate payable on a quarterly basis at a fixed rate of 4 percent per annum commencing March 31, 2009 for the first two years, 4.5 percent per annum for the third year, 5 percent per annum for the fourth year and 5.25 percent per annum for the remaining period. The terms also provide that ADCB will have a call option to repay the loans partially or fully at the end of five years from the date of issue. For regulatory purposes, the loan qualifies as Tier II capital.

21 Other liabilities

	2009 AED'000	2008 AED'000
Interest payable	992,049	700,122
Employees' end of service and other benefits	130,973	109,906
Accounts payable and other creditors	736,492	504,950
Clearing payables	606	271,194
Deferred income	263,881	127,202
Acceptances	4,631,510	887,669
Others	985,154	1,134,314
	7,740,665	3,735,357

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

22 Share capital

	Authorised AED'000	Issued and fully paid 2009 AED'000	Issued and fully paid 2008 AED'000
Ordinary shares of AED 1 each	4,810,000	4,810,000	4,810,000

	2009 Number of shares	2009 AED'000	2008 Number of shares	2008 AED'000
As of January 1	4,810,000,000	4,810,000	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	4,810,000,000	4,810,000

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

22 Share capital (continued)

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 extraordinary general assembly meeting of the Bank held on March 18, 2007.

Following the Annual General Meeting held on March 31, 2009, the Shareholders approved the distribution of proposed cash dividends of AED 481,000 thousand representing 10% of the paid up capital for the year 2008 (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).

23 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.

24 Employees' incentive plan shares, net

The Bank has 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 when they meet the vesting conditions. These shares were acquired from the stock market by the Bank at the prevailing market price on the acquisition dates. The fair value of the granted shares at the grant date was AED 38,131 thousand, which is recognised in the consolidated income statement on a straight line basis over a 3 years vesting period. These shares are held by ACB LTIP (IOM) Limited, a consolidated subsidiary, until vesting conditions are met. The Bank's Nomination/Remuneration and HR Committee has determined and approved the shares granted to key management employees based on the Bank's key performance indicators and with respect to the annual salary of each employee. Description of the Plan is as follows:

Date of the grant – January 1, 2008

Number of shares granted – 14,346,260

Vesting conditions – Three years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement or termination).

The movement of plan shares is as follows:

	2009	2008
Shares outstanding at January 1	14,346,260	-
Shares granted during the year	-	14,346,260
Exercised during the year	(1,172,932)	-
Outstanding at December 31	13,173,328	14,346,260
Exercisable at December 31	-	-

	2009 AED'000	2008 AED'000
Amount of "Plan" costs recognised in the statement of income	12,270	12,423

25 Proposed dividends

For the year ended December 31, 2009, the Board of Directors have proposed not to pay dividends on the paid up capital (2008: cash dividends of AED 481,000 thousand representing 10% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

26 Capital notes

In February 2009, as part of the Government's strategy to respond to the global financial crisis, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier I regulatory capital notes with a principal amount of AED 4 billion (the "Notes"), along with such capital notes from other major commercial banks in Abu Dhabi.

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Issuer subject to certain conditions. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bear interest at the rate of 6% per annum payable semi-annually until February 2014, and a floating interest rate of 6 month EIBOR plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date ("Non-Payment Event").

If the Bank makes a non-payment election or a non-payment event occurs, then the issuer will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Issuer ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

27 Interest income

	2009 AED'000	2008 AED'000
Loans and advances to banks	139,828	608,279
Loans and advances to customers	6,596,749	5,194,926
Investment securities	161,246	142,705
	6,897,823	5,945,910

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

	2009 AED'000	2008 AED'000
28 Interest expense		
Deposits from banks	215,396	279,612
Deposits from customers	2,468,462	1,820,881
Debt securities issued and subordinated liabilities	476,722	1,168,835
Interest on securities and notes	356,323	168,106
	3,516,903	3,437,434
29 Net fees and commission income		
Fees and commission income		
Retail banking fees	456,608	462,649
Corporate banking fees	382,267	320,468
Investment banking fees	86,575	170,141
Brokerage fees	18,436	31,109
Fees from trust and other fiduciary activities	67,246	52,589
Other fees	40,660	17,579
Total fees and commission income	**1,051,792**	1,054,535
Fees and commission expenses	**(66,168)**	(72,441)
Net fees and commission income	**985,624**	982,094

30 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.

	2009 AED'000	2008 AED'000
31 Net gain from trading and investment securities		
Net gain /(loss) from trading securities	7,497	(10,687)
Net gain from sale of available for sale investments	64,081	89,252
	71,578	78,565
32 Impairment allowances		
Impairment allowance on doubtful loans and advances, net of recoveries (Note 9)	2,968,315	758,440
Impairment allowance on investment securities (Note 11)	540,109	296,070
Impairment allowance on credit default swaps (Note 37)	244,550	443,637
	3,752,974	1,498,147

33 Earnings per share

Basic

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

Ordinary shares that will be issued upon the conversion of Mandatory Convertible Securities (MCS) are included in the calculation of basic earnings per share.

	2009	2008
Net (loss)/profit for the year attributable to the equity holders of the Bank (AED'000)	(559,448)	1,236,592
Add: Interest on MCS for the year	153,296	168,106
Less: Coupons paid on capital notes (AED'000)	(120,000)	-
Net adjusted (loss)/profit for the year attributable to the equity holders of the Bank (AED'000) (a)	**(526,152)**	1,404,698
Weighted average number of shares in issue throughout the year (000's)	4,810,000	4,810,000
Add: Weighted average number of shares resulting from conversion of MCS (000's)	785,597	531,444
Less: Weighted average number of shares resulting from Employees' incentive share plan (000's)	(13,564)	(1,018)
Weighted average number of potential equity shares in issue during the year (000's) (b)	**5,582,033**	5,340,426
Basic (loss)/earnings per share (AED) (a)/(b)	**(0.09)**	0.26

34 Taxation

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

35 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2009 AED'000	2008 AED'000
Cash and balances with Central Banks	4,139,015	3,911,009
Deposits and balances due from banks	18,348,988	17,528,422
Due to banks	(4,738,201)	(6,905,263)
	17,749,802	14,534,168
Less: Deposits and balances due from banks and cash and balances with Central Banks – maturity more than 3 months	(919,535)	(488,168)
Add: Due to banks – maturity more than 3 months	2,543,652	1,098,109
	19,373,919	15,144,109

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

36 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 statement of financial position are as follows:

	2009 AED'000	2008 AED'000
Loans and advances :		
To Directors	30,296	116,697
To Key Managers	30,776	36,018
	61,072	152,715
Customers' deposits :		
From Directors	297,470	14,291
From Major Shareholders	2,368,396	6,611,400
From Key Managers	16,939	8,345
	2,682,805	6,634,036
Mandatory convertible securities :		
From Major Shareholders	**800,000**	800,000
Investments in funds managed by the Bank at fair values:		
Available for sale investments	-	71,283
Irrevocable commitments and contingencies:		
To Directors	**6,064**	62,276

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

	2009 AED'000	2008 AED'000
Interest, fees and commission income:		
Directors	410	1,702
Key Managers	1,650	588
Trust activities	60,068	126,376
	62,128	128,666

Interest expense:

	2009 AED'000	2008 AED'000
Directors	17,451	229
Major Shareholders	31,496	66,729
Key Managers	472	84
	49,419	67,042

Remuneration of key management employees during the year are as follows:

	2009 AED'000	2008 AED'000
Short term benefits	33,260	45,925
Board of Directors' Remuneration	-	4,750
	33,260	50,675

Remuneration of the Board 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. The number of key management employees as at December 31, 2009 is 10 (2008: 16 employees).

37 Commitments and contingent liabilities

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

	2009 AED'000	2008 AED'000
Commitments on behalf of customers		
Letters of credit	4,107,386	8,682,852
Guarantees	16,077,519	15,989,632
Commitments to extend credit – Revocable	4,791,152	4,278,420
Commitments to extend credit – Irrevocable	18,820,730	18,324,032
Credit default swaps	2,007,017	2,395,094
	45,803,804	49,670,030
Others		
Commitments for future capital expenditure	190,920	505,590
Commitments to invest in investment securities	245,409	119,579
	46,240,133	50,295,199

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

37 Commitments and contingent liabilities (continued)

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.

Commitments and contingent liabilities, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

Credit default swap means a security with a risk level and pricing level based on the likelihood 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 (CDOs); 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 gross exposure and net of provision exposure in credit default swaps amounted to AED 2,222,454 thousand and 2,007,017 thousand respectively (2008 gross exposure and net of provision exposure – AED 2,663,214 thousand and AED 2,395,094 thousand respectively). During the year, an amount of AED 244,550 thousand (Note 32) has been provided (2008 – AED 443,637 thousand) towards expected calls against impaired credit default swaps based on the independent advisor report and recommendations as discussed in Note 11.

38 Business segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segmental Reporting) required an entity to identify two sets of segments that is business and geographical segment. As a result, following the adoption of IFRS 8, the identification of the Bank's reportable segment has changed.

In prior years, segment information reported externally was analysed on the basis of commercial banking and investment banking. However, information reported to the Management Executive Committee of the Bank as the Chief Operating Decision Maker of the Bank, for the purpose of resource allocation and assessment of performance is more specifically focused on the business segments of the Bank. The business segments as reported under IFRS 8 are wholesale banking, consumer banking and investment and treasury banking. Assets, liabilities and performance information that are not allocated to segments are presented in the following table as corporate support.

Information regarding these segments is presented below. Amounts reported for the prior year have been redesignated to conform to the requirements of IFRS 8.

The following is an analysis of the Bank's revenue and results by operating segment for the year 2009:

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
Net interest income after distribution to depositors	2,149,565	1,578,971	(483,119)	30,726	3,276,143
Non-interest income	506,823	563,144	171,913	41,621	1,283,501
Share of profit of associate	8,824	214,338	-	-	223,162
Provision for impairment of loans and advances	(961,223)	(2,007,092)	-	-	(2,968,315)
Impairment of funded and unfunded investments	(147,907)	-	(636,752)	-	(784,659)
Depreciation and amortisation	(40,441)	(2,762)	(5,414)	(40,466)	(89,083)
Other operating expenses	(614,832)	(233,774)	(74,213)	(527,498)	(1,450,317)
Net profit before taxation	900,809	112,825	(1,027,585)	(495,617)	(509,568)
Taxation	-	(3,231)	-	-	(3,231)
Net profit after taxation	900,809	109,594	(1,027,585)	(495,617)	(512,799)
Capital expenditure	-	-	-	311,096	311,096
As at December 31, 2009					
Segment assets	59,106,435	68,474,440	31,180,835	1,447,068	160,208,778
Segment liabilities	23,741,334	34,413,534	82,679,810	283,981	141,118,659
As at December 31, 2008					
Segment assets	53,690,122	57,907,721	35,654,328	1,178,298	148,430,469
Segment liabilities	15,003,698	20,328,181	96,229,340	954,098	132,515,317

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

38 Business segments (continued)

The following is an analysis of the Bank's revenue and results by operating segment for the year 2008:

	Consumer Banking AED'000	Wholesale Banking AED'000	Investments and Treasury AED'000	Corporate Support AED'000	Total AED'000
Net interest income after distribution to depositors	1,488,362	1,024,903	(73,365)	40,711	2,480,611
Non-interest income	513,939	683,464	352,090	188,638	1,738,131
Share of profit of associate	-	171,557	-	-	171,557
Provision for impairment of loans & advances	(483,432)	(275,008)	-	-	(758,440)
Impairment of funded and unfunded investments	-	-	(739,707)	-	(739,707)
Depreciation and amortisation	(22,185)	(2,121)	(4,415)	(28,609)	(57,330)
Other operating expenses	(617,655)	(260,733)	(53,428)	(536,015)	(1,467,831)
Net profit before taxation	879,029	1,342,062	(518,825)	(335,275)	1,366,991
Taxation	-	(8,518)	-	-	(8,518)
Net profit after taxation	879,029	1,333,544	(518,825)	(335,275)	1,358,473
Capital expenditure	-	-	-	152,816	152,816

Geographical information

The Bank operates in two principal geographic areas that is Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. Branches and subsidiaries; and International area represents the operations of the Bank that originates from its branches in India and through its subsidiaries and associate outside U.A.E. The Bank's operations and information about its segment assets (non-current assets excluding investments in associates and other financial instruments) by geographical location are detailed as follows:

	Domestic		International	
	2009 AED'000	2008 AED'000	**2009 AED'000**	2008 AED'000
Income				
Net interest income after distribution to depositors	**3,389,820**	2,585,566	**(113,677)**	(104,955)
Non-interest income	**1,281,615**	1,736,077	**1,886**	2,054
Share of profit of associate	**8,824**	-	**214,338**	171,557

	As at December 31		As at December 31	
	2009 AED'000	2008 AED'000	**2009 AED'000**	2008 AED'000
Investment properties	**549,492**	632,492	**-**	-
Property and equipment, net	**786,736**	570,933	**4,985**	4,908

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

39 Financial instruments

39.1 Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

December 31, 2009	Held-for trading AED'000	Hedging derivatives AED'000	Available for-sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	-	-	-	-	4,139,015	4,139,015
Deposits and balances due from banks	-	-	-	-	18,348,988	18,348,988
Trading securities	86,561	-	-		-	86,561
Loans and advances, net	-	-	-	116,610,292	-	116,610,292
Derivative financial instruments	4,495,260	457,759	-	-	-	4,953,019
Investment securities	-	-	4,372,744	-	-	4,372,744
Total assets	**4,581,821**	**457,759**	**4,372,744**	**116,610,292**	**22,488,003**	**148,510,619**
Liabilities						
Due to banks	-	-	-	-	4,738,201	4,738,201
Customers' deposits	-	-	-	-	86,299,957	86,299,957
Mandatory convertible securities – liability component	-	-	-	-	109,049	109,049
Short and medium term borrowings	-	-	-	-	28,921,804	28,921,804
Derivative financial instruments	4,458,618	230,871	-	-	-	4,689,489
Long term borrowings	-	-	-	-	8,619,494	8,619,494
Total liabilities	**4,458,618**	**230,871**	**-**	**-**	**128,688,505**	**133,377,994**

December 31, 2008	Held-for trading AED'000	Hedging derivatives AED'000	Available for-sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	-	-	-	-	3,911,009	3,911,009
Deposits and balances due from banks	-	-	-	-	17,528,422	17,528,422
Loans and advances, net	-	-	-	109,081,089	-	109,081,089
Derivative financial instruments	6,202,686	414,927	-	-	-	6,617,613
Investment securities	-	-	3,422,794	-	-	3,422,794
Total assets	6,202,686	414,927	3,422,794	109,081,089	21,439,431	140,560,927
Liabilities						
Due to banks	-	-	-	-	6,905,263	6,905,263
Customers' deposits	-	-	-	-	84,360,821	84,360,821
Mandatory convertible securities – liability component	-	-	-	-	168,435	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	28,427,189
Derivative financial instruments	6,238,700	540,193	-	-	-	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Total liabilities	6,238,700	540,193	-	-	122,001,067	128,779,960

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

39 Financial instruments (continued)

39.2 Fair value measurements recognised in the statement of financial position

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

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

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets at FVTPL			
Trading securities	86,561	-	-
Derivative financial insturments	-	4,953,019	-
Available-for-sale financial assets			
Quoted	3,269,830	-	-
Unquoted	-	-	1,102,914
Total	**3,356,391**	**4,953,019**	**1,102,914**
Financial liabilities at FVTPL			
Derivative financial instruments	-	**4,689,489**	-

40 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.

As at reporting date, 30% of the loans and advances is concentrated by 12 customers (2008 – 28% is concentrated by 12 customers).

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 Board Risk and Credit Committee (BRCC) 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.

For details of the composition of the loans and advances portfolio refer to Note 9. Information on credit risk relating to derivative instruments is provided in Note 10.

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 is in the process of implementing a new solution for calculation of probability of default through best in practice tools that are Basel II compliant.

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 BRCC, when considered necessary. These limits are set with respect to product, country and industry sector.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

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

Risk limit control and mitigation policies (continued)

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:

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

(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 statement of financial position 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 year, as it is affected by each transaction subject to the arrangement.

	2009			2008		
	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	18,348,988	-	18,348,988	17,528,422	-	17,528,422
Trading securities	86,561	-	86,561	-	-	-
Loans and advances, net	116,610,292	-	116,115,142	109,081,089	-	108,535,689
Investment securities	4,372,744	245,409	4,618,153	3,422,794	119,579	3,452,375
Derivative financial instruments	4,953,019	-	4,953,019	6,617,613	-	6,617,613
Investments in associates	4,582,659	-	4,582,659	4,427,529	-	4,427,529
Other assets	5,774,287	-	5,738,244	2,233,680	-	2,145,527
Guarantees	-	16,077,519	15,763,100	-	15,989,632	15,638,688
Letters of credit	-	4,107,386	4,074,210	-	8,682,852	8,664,919
Irrevocable commitments to extend credit	-	18,820,730	18,820,730	-	18,324,032	18,324,032
Credit default swaps	-	2,007,017	2,007,017	-	2,395,094	2,395,094
Total	**154,728,550**	**41,258,061**	**195,107,823**	143,311,127	45,511,189	187,729,888

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items

The distribution of assets, liabilities and off statement of financial position items by geographic region and industry sector during the year was as follows:

41.1 Geographic region

December 31, 2009	Domestic (U.A.E.) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	4,113,522	-	-	25,493	-	-	-	4,139,015
Deposits and balances due from banks	5,777,339	4,567,211	737	1,194,048	6,558,152	251,501	-	18,348,988
Trading securities	6,962	67,125	12,474	-	-	-	-	86,561
Loans and advances, net	107,340,366	5,152,465	575,651	1,708,048	529,248	97,670	1,206,844	116,610,292
Derivative financial instruments	3,555,253	52,069	6,870	6,515	862,809	415,776	53,727	4,953,019
Investment securities	3,211,120	381,056	-	401,622	50,339	328,607	-	4,372,744
Investments in associates	107,875	-	-	4,474,784	-	-	-	4,582,659
Investment properties	549,492	-	-	-	-	-	-	549,492
Other assets	5,727,249	-	-	47,038	-	-	-	5,774,287
Property and equipment, net	786,736	-	-	4,985	-	-	-	791,721
Total assets	**131,175,914**	**10,219,926**	**595,732**	**7,862,533**	**8,000,548**	**1,093,554**	**1,260,571**	**160,208,778**
Liabilities								
Due to banks	2,941,798	151,509	14,886	48,817	1,473,170	107,632	389	4,738,201
Customers' deposits	77,241,755	3,757,407	82,264	557,087	3,221,931	278,681	1,160,832	86,299,957
Mandatory convertible securities – liability component	109,049	-	-	-	-	-	-	109,049
Short and medium term borrowings	-	-	-	-	25,212,074	3,709,730	-	28,921,804
Derivative financial instruments	617,631	9,367	264	53,592	2,575,035	1,253,800	179,800	4,689,489
Long term borrowings	6,617,456	-	-	-	2,002,038	-	-	8,619,494
Other liabilities	7,634,395	-	-	106,270	-	-	-	7,740,665
Total liabilities	**95,162,084**	**3,918,283**	**97,414**	**765,766**	**34,484,248**	**5,349,843**	**1,341,021**	**141,118,659**
Equity	**19,420,772**	**-**	**-**	**(330,653)**	**-**	**-**	**-**	**19,090,119**
	114,582,856	**3,918,283**	**97,414**	**435,113**	**34,484,248**	**5,349,843**	**1,341,021**	**160,208,778**
Off balance sheet items	**40,231,082**	**676,067**	**65,983**	**1,798,840**	**1,205,354**	**1,551,563**	**711,244**	**46,240,133**

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.1 Geographic region (continued)

December 31, 2008	Domestic (U.A.E.) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	3,890,270	-	-	20,739	-	-	-	3,911,009
Deposits and balances due from banks	6,929,539	1,683,290	73	516,098	8,186,928	212,494	-	17,528,422
Loans and advances, net	100,236,515	4,914,136	581,992	1,545,176	841,988	2,983	958,299	109,081,089
Derivative financial instruments	3,399,090	51,059	38,887	606,998	1,651,459	870,120	-	6,617,613
Investment securities	2,522,231	107,839	-	293,134	56,573	443,017	-	3,422,794
Investments in associates	100,000	-	-	4,327,529	-	-	-	4,427,529
Investment properties	632,492	-	-	-	-	-	-	632,492
Other assets	2,190,061	-	-	24,408	19,211	-	-	2,233,680
Property and equipment, net	570,933	-	-	4,908	-	-	-	575,841
Total assets	120,471,131	6,756,324	620,952	7,338,990	10,756,159	1,528,614	958,299	148,430,469
Liabilities								
Due to banks	4,435,732	1,240,225	148,804	214,837	865,636	-	29	6,905,263
Customers' deposits	73,881,180	3,863,034	149,025	124,802	1,345,390	9,801	4,987,589	84,360,821
Mandatory convertible securities – liability component	168,435	-	-	-	-	-	-	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	-	-	28,427,189
Derivative financial instruments	(413,211)	467,564	132	630,108	4,092,466	2,001,834	-	6,778,893
Long term borrowings	-	-	-	-	2,139,359	-	-	2,139,359
Other liabilities	3,674,333	-	-	61,024	-	-	-	3,735,357
Total liabilities	81,746,469	5,570,823	297,961	1,030,771	36,870,040	2,011,635	4,987,618	132,515,317
Equity	16,236,229	-	-	(321,077)	-	-	-	15,915,152
	97,982,698	5,570,823	297,961	709,694	36,870,040	2,011,635	4,987,618	148,430,469
Off balance sheet items	39,370,943	522,572	55,551	1,924,896	1,693,002	2,151,792	4,576,443	50,295,199

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.2 Industry sector

December 31, 2009	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	470,374	-	-	-	3,668,641	4,139,015
Deposits and balances due from banks	-	-	-	-	18,348,988	18,348,988
Trading securities	68,652	-	-	-	17,909	86,561
Loans and advances, net	42,768,040	42,232,847	15,744,696	2,800,148	13,064,561	116,610,292
Derivative financial instruments	1,320,305	15,478	-	1,014,166	2,603,070	4,953,019
Investment securities	1,142,084	-	-	1,869,105	1,361,555	4,372,744
Investments in associates	-	-	-	-	4,582,659	4,582,659
Investment properties	549,492	-	-	-	-	549,492
Other assets	5,774,287	-	-	-	-	5,774,287
Property and equipment, net	791,721	-	-	-	-	791,721
Total assets	**52,884,955**	**42,248,325**	**15,744,696**	**5,683,419**	**43,647,383**	**160,208,778**
Liabilities						
Due to banks	-	-	-	-	4,738,201	4,738,201
Customers' deposits	27,069,481	19,538,184	6,657,183	22,811,362	10,223,747	86,299,957
Mandatory convertible securities – liability component	109,049	-	-	-	-	109,049
Short and medium term Borrowings	-	-	-	-	28,921,804	28,921,804
Derivative financial instruments	262,216	45,642	-	1,426	4,380,205	4,689,489
Long term borrowings	-	-	-	6,617,456	2,002,038	8,619,494
Other liabilities	7,740,665	-	-	-	-	7,740,665
Total liabilities	**35,181,411**	**19,583,826**	**6,657,183**	**29,430,244**	**50,265,995**	**141,118,659**
Equity	**19,090,119**	**-**	**-**	**-**	**-**	**19,090,119**
	54,271,530	**19,583,826**	**6,657,183**	**29,430,244**	**50,265,995**	**160,208,778**
Off balance sheet items	**35,835,749**	**4,697,473**	**1,705,240**	**436,710**	**3,564,961**	**46,240,133**

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.2 Industry sector (continued)

December 31, 2008	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	509,628	-	-	-	3,401,381	3,911,009
Deposits and balances due from banks	-	-	-	-	17,528,422	17,528,422
Loans and advances, net	47,077,494	36,865,896	9,541,626	2,055,677	13,540,396	109,081,089
Derivative financial instruments	1,924,574	16,966	-	2,005,098	2,670,975	6,617,613
Investment securities	1,073,710	-	-	459,668	1,889,416	3,422,794
Investments in associates	-	-	100,000	-	4,327,529	4,427,529
Investment properties	632,492	-	-	-	-	632,492
Other assets	2,233,680	-	-	-	-	2,233,680
Property and equipment, net	575,841	-	-	-	-	575,841
Total assets	54,027,419	36,882,862	9,641,626	4,520,443	43,358,119	148,430,469
Liabilities						
Due to banks	-	-	-	-	6,905,263	6,905,263
Customers' deposits	17,984,055	14,522,940	14,441,746	29,082,380	8,329,700	84,360,821
Mandatory convertible securities – liability component	168,435	-	-	-	-	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	28,427,189
Derivative financial instruments	594,091	17,976	-	4,535	6,162,291	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Other liabilities	3,735,357	-	-	-	-	3,735,357
Total liabilities	22,481,938	14,540,916	14,441,746	29,086,915	51,963,802	132,515,317
Equity	15,115,152	-	-	800,000	-	15,915,152
	37,597,090	14,540,916	14,441,746	29,886,915	51,963,802	148,430,469
Off balance sheet items	35,138,664	5,071,658	1,398,145	61,978	8,624,754	50,295,199

42 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 either a fixed or a floating contractual rate of interest. A significant portion of the Bank's loans and advances, due from banks, investment securities, customer deposits, due to banks, short and medium term borrowings, capital notes, long 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 of interest that, when used in a present value calculation, would result 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 division, which uses linear and non-linear financial instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

The Bank uses financial simulation 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 accrue a floating rate of interest, such as deposits and loans generally repricing simultaneously, this provides a natural hedge which reduces exposure to changing levels of interest rates. Moreover, a majority of the Bank's assets and liabilities reprice with at least a yearly frequency or more frequently, thereby further limiting interest rate risk.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

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

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2009 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	-	-	-	-	-	-	4,139,015	4,139,015
Deposits and balances due from banks	0.81%	14,086,066	4,052,645	-	-	16,473	193,804	18,348,988
Trading securities	-	-	-	-	-	-	86,561	86,561
Loans and advances, net	5.72%	95,198,570	11,535,059	780,765	2,638,034	11,253,007	(4,795,143)	116,610,292
Derivative financial instruments	-	2,259,146	453,260	114,830	832,630	835,395	457,758	4,953,019
Investment securities	5.50%	929,819	643,820	2,130,436	172,742	14,942	480,985	4,372,744
Investments in associates	-	-	-	-	-	-	4,582,659	4,582,659
Investment properties	-	-	-	-	-	-	549,492	549,492
Other assets	-	-	-	-	-	-	5,774,287	5,774,287
Property and equipment, net	-	-	-	-	-	-	791,721	791,721
Total assets		**112,473,601**	**16,684,784**	**3,026,031**	**3,643,406**	**12,119,817**	**12,261,139**	**160,208,778**
Liabilities								
Due to banks	1.58%	1,663,288	1,069,025	1,726,601	30,111	49,129	200,047	4,738,201
Customers' deposits	3.11%	67,199,403	12,222,469	6,491,259	329,060	1,901	55,865	86,299,957
Mandatory convertible securities – liability component	2.08%	109,049	-	-	-	-	-	109,049
Short and medium term borrowings	2.00%	19,911,778	2,386,688	2,950,338	-	3,673,000	-	28,921,804
Derivative financial instruments	-	2,507,784	237,339	129,234	756,359	827,903	230,870	4,689,489
Long term borrowings	4.12%	1,328,891	-	-	-	7,290,603	-	8,619,494
Other liabilities	-	-	-	-	-	-	7,740,665	7,740,665
Equity	-	-	-	-	-	-	19,090,119	19,090,119
Total liabilities and equity		**92,720,193**	**15,915,521**	**11,297,432**	**1,115,530**	**11,842,536**	**27,317,566**	**160,208,778**
On balance sheet gap		19,753,408	769,263	(8,271,401)	2,527,876	277,281	(15,056,427)	-
Off balance sheet gap		(5,166,258)	(563,528)	(1,359,863)	6,735,983	353,666	-	
Total interest rate sensitivity gap		**14,587,150**	**205,735**	**(9,631,264)**	**9,263,859**	**630,947**	**(15,056,427)**	**-**
Cumulative interest rate sensitivity gap		**14,587,150**	**14,792,885**	**5,161,621**	**14,425,480**	**15,056,427**	**-**	**-**

Included in investment securities are interest bearing amounts of AED 313,784 thousand relating to the Bank's overseas branches with effective rate of 7.88%

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

42 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	-	(1,990,011)	109,081,089
Derivative financial instruments	-	3,756,419	942,178	540,499	750,202	213,388	414,927	6,617,613
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	-	-	-	-	-	-	2,233,680	2,233,680
Property and equipment, net	-	-	-	-	-	-	575,841	575,841
Total assets		112,312,824	18,620,086	854,245	3,932,129	236,577	12,474,608	148,430,469
Liabilities								
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 – liability component	7.80%	168,435	-	-	-	-	-	168,435
Short and medium term borrowings	3.66%	21,501,768	3,021,136	3,497,530	-	-	406,755	28,427,189
Derivative financial instruments	-	4,770,139	693,590	40,871	659,553	199,813	414,927	6,778,893
Long term borrowings	3.66%	2,131,187	-	-	-	-	8,172	2,139,359
Other liabilities	-	-	-	-	-	-	3,735,357	3,735,357
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	20,480,363	148,430,469
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, 2009 (continued)

43 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 fulfil 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 statement of financial position 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 Stable Resources 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.

The above definitions are in line with the Central Bank of United Arab Emirates definitions of the Advances to Deposits Ratio.

The Bank also monitors composition of funding sources at granular level and has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total statement of financial position. Some of the ratios for monitoring are as follows:

- Euro Commercial Paper to Total Liabilities
- Wholesale Funds to Total Liabilities
- Money Market Deposits to Total Liabilities
- Core Funds to Total Liabilities
- Non-Core Funds to Total Liabilities

The Bank also has unsecured standby facilities of USD 25,000 thousand (2008 – USD 175,000 thousand) to fund its liquidity needs (Note 19).

Funding approach

ADCB pursues a diversified funding construct including, Retail Funding, liabilities for Corporate and Financial Institutions as well as professional counterparts and capital markets. These sources of liquidity are regularly monitored by the Asset and Liability Committee to ensure sustainability and diversification by provider, product and term.

Bank identifies the core component of Cash or On-demand accounts like savings and current account and treats these as sources of long term retail funding.

Long term capital market issues, secured and un-secured funding lines from institutional investor also form part of funding sources.

Central bank facilities, repo facilities are also part of the funding source available which help to diversify the funding source available to the bank.

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 end of the reporting period 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 December 31, 2009 was as follows:

	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	Total AED'000
Assets						
Cash and balances with Central Banks	4,139,015	-	-	-	-	4,139,015
Deposits and balances due from banks	12,043,140	379,645	900,000	1,336,730	3,689,473	18,348,988
Trading securities	86,561	-	-	-	-	86,561
Loans and advances, net	19,689,111	4,556,118	5,537,117	20,070,926	66,757,020	116,610,292
Derivative financial instruments	322,859	49,098	92,131	788,017	3,700,914	4,953,019
Investment securities	884,482	48,251	79,596	207,539	3,152,876	4,372,744
Investments in associates	-	-	-	-	4,582,659	4,582,659
Investment properties	-	-	-	-	549,492	549,492
Other assets	5,774,287	-	-	-	-	5,774,287
Property and equipment, net	-	-	-	-	791,721	791,721
Total assets	**42,939,455**	**5,033,112**	**6,608,844**	**22,403,212**	**83,224,155**	**160,208,778**
Liabilities and Equity						
Due to banks	1,863,336	303,204	992,101	1,089,671	489,889	4,738,201
Customers' deposits	65,245,527	12,701,226	6,783,316	1,567,987	1,901	86,299,957
Mandatory convertible securities – liability component	-	-	-	109,049	-	109,049
Short and medium term borrowings	606,870	4,129,706	4,194,847	10,247,378	9,743,003	28,921,804
Derivative financial instruments	352,955	48,367	147,995	426,165	3,714,007	4,689,489
Long term borrowings	-	-	-	-	8,619,494	8,619,494
Other liabilities	7,740,665	-	-	-	-	7,740,665
Equity	-	-	-	-	19,090,119	19,090,119
Total liabilities and equity	**75,809,353**	**17,182,503**	**12,118,259**	**13,440,250**	**41,658,413**	**160,208,778**
Liquidity gap	**(32,869,898)**	**(12,149,391)**	**(5,509,415)**	**8,962,962**	**41,565,742**	**-**
Cumulative liquidity gap	**(32,869,898)**	**(45,019,289)**	**(50,528,704)**	**(41,565,742)**	**-**	**-**

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2008 was as follows:

	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	Total AED'000
Assets						
Cash and balances with Central Banks	3,861,009	50,000	-	-	-	3,911,009
Deposits and balances due from banks	17,090,255	36,730	8,500	369,749	23,188	17,528,422
Loans and advances, net	33,942,291	1,410,958	10,754,132	15,701,487	47,272,221	109,081,089
Derivative financial instruments	686,521	118,498	86,797	2,365,662	3,360,135	6,617,613
Investment securities	183,728	48,653	306,113	717,318	2,166,982	3,422,794
Investments in associates	-	-	-	-	4,427,529	4,427,529
Investment properties	-	-	-	-	632,492	632,492
Other assets	2,233,680	-	-	-	-	2,233,680
Property and equipment, net	-	-	-	-	575,841	575,841
Total assets	57,997,484	1,664,839	11,155,542	19,154,216	58,458,388	148,430,469
Liabilities and Equity						
Due to banks	5,807,154	435,873	23,959	241,477	396,800	6,905,263
Customers' deposits	62,468,078	8,614,566	6,205,635	3,758,753	3,313,789	84,360,821
Mandatory convertible securities – liability component	-	-	-	168,435	-	168,435
Short and medium term borrowings	1,486,825	403,286	5,405,344	12,520,218	8,611,516	28,427,189
Derivative financial instruments	866,226	123,006	60,569	2,469,145	3,259,947	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Other liabilities	3,735,357	-	-	-	-	3,735,357
Equity	-	-	-	-	15,915,152	15,915,152
Total liabilities and equity	74,363,640	9,576,731	11,695,507	19,158,028	33,636,563	148,430,469
Liquidity gap	(16,366,156)	(7,911,892)	(539,965)	(3,812)	24,821,825	-
Cumulative liquidity gap	(16,366,156)	(24,278,048)	(24,818,013)	(24,821,825)	-	-

44 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 on daily basis. At December 31, the Bank had the following significant net exposures denominated in foreign currencies:

	2009 equivalent long/(short) AED'000	2008 equivalent long/(short) AED'000
US$	**(8,685,085)**	(7,312,885)
Indian Rupee	**92,406**	73,252
Omani Riyal	**2,057**	2,057
Pound Sterling	**1,663**	2,593
Euro	**3,976**	9,382
Bahraini Dinar	**(4)**	(191)
Saudi Riyal	**3,852**	23
Japanese Yen	**(587)**	712
Australian Dollar	**14,108**	(8,329)
Swiss Franc	**3,408**	8
Malaysian Ringgit	**716,170**	4,280,870
Qatari Riyal	**(8,429)**	1,512
Others	**(79)**	(336)

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

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

Currency concentrations as at December 31, 2009:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	3,724,378	389,101	3	-	1	-	25,532	4,139,015
Deposits and balances due from banks	3,286,932	12,850,762	799,221	5,855	168,982	21	1,237,215	18,348,988
Trading securities	-	86,561	-	-	-	-	-	86,561
Loans and advances, net	95,088,581	18,566,447	72,737	904	125	-	2,881,498	116,610,292
Derivative financial instruments	1,220,967	2,919,174	14,886	-	744,000	-	53,992	4,953,019
Investment securities	1,411,947	2,561,793	44,774	-	-	-	354,230	4,372,744
Investments in associates	107,875	-	-	-	-	4,474,784	-	4,582,659
Investment properties	549,492	-	-	-	-	-	-	549,492
Other assets	5,413,154	221,899	20,031	31,294	-	36,397	51,512	5,774,287
Property and equipment, net	786,736	-	-	-	-	-	4,985	791,721
Total assets	**111,590,062**	**37,595,737**	**951,652**	**38,053**	**913,108**	**4,511,202**	**4,608,964**	**160,208,778**
Liabilities								
Due to banks	4,291,009	-	11,880	835	57,872	-	376,605	4,738,201
Customers' deposits	56,648,904	23,288,508	1,839,958	396,684	891,696	12	3,234,195	86,299,957
Mandatory convertible securities – liability component	109,049	-	-	-	-	-	-	109,049
Short and medium term borrowings	3,687,200	19,156,532	-	1,597,188	2,950,337	-	1,530,547	28,921,804
Derivative financial instruments	922,631	2,818,786	14,886	-	744,000	-	189,186	4,689,489
Long term borrowings	7,117,456	1,413,323	-	-	-	-	88,715	8,619,494
Other liabilities	7,629,158	-	11,050	23,643	29,560	5,160	42,094	7,740,665
Total liabilities	**80,405,407**	**46,677,149**	**1,877,774**	**2,018,350**	**4,673,465**	**5,172**	**5,461,342**	**141,118,659**
Off balance sheet items								
Letters of credit	924,257	2,401,495	426,384	21,885	7,866	-	325,499	4,107,386
Guarantees	9,532,851	4,987,417	392,150	1,678	13,678	-	1,149,745	16,077,519
Commitments to extend credit – revocable	4,791,152	-	-	-	-	-	-	4,791,152
Commitments to extend credit – irrevocable	15,444,468	3,156,044	67,943	-	-	-	152,275	18,820,730
Credit default swaps	-	2,007,017	-	-	-	-	-	2,007,017
	30,692,728	12,551,973	886,477	23,563	21,544	-	1,627,519	45,803,804
Commitments for future capital expenditure	190,920	-	-	-	-	-	-	190,920
Commitments to invest in investment securities	-	245,409	-	-	-	-	-	245,409
Total off balance sheet items	**30,883,648**	**12,797,382**	**886,477**	**23,563**	**21,544**	**-**	**1,627,519**	**46,240,133**

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

44 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	23,708,343	465,262	186,625	5,765	-	3,114,564	109,081,089
Derivative financial instruments	1,362,724	3,758,501	54,339	-	1,257,452	-	184,597	6,617,613
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	1,109,577	863,518	28,077	17,713	2,305	13,402	199,088	2,233,680
Property and equipment, net	570,933	-	-	-	-	-	4,908	575,841
Total assets	95,371,255	39,808,669	3,308,966	208,078	1,405,666	4,340,933	3,986,902	148,430,469
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 – liability component	168,435	-	-	-	-	-	-	168,435
Short and medium term borrowings	5,413,000	16,690,478	1,076,738	1,550,225	2,677,158	-	1,019,590	28,427,189
Derivative financial instruments	661,161	6,117,732	-	-	-	-	-	6,778,893
Long term borrowings	500,000	1,562,373	-	-	-	-	76,986	2,139,359
Other liabilities	2,797,886	530,707	112,085	25,195	39,102	1,287	229,095	3,735,357
Total liabilities	67,650,136	52,801,785	4,479,440	1,614,074	2,955,408	1,299	3,013,175	132,515,317
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 – Revocable	4,278,420	-	-	-	-	-	-	4,278,420
Commitments to extend credit – Irrevocable	16,290,824	1,820,060	87,236	178	357	-	125,377	18,324,032
Credit default swaps	-	2,395,094	-	-	-	-	-	2,395,094
	34,278,460	12,854,766	697,531	3,824	31,130	-	1,804,319	49,670,030
Commitments for future capital Expenditure	505,590	-	-	-	-	-	-	505,590
Commitments to invest in investment securities	-	119,579	-	-	-	-	-	119,579
Total off balance sheet items	34,784,050	12,974,345	697,531	3,824	31,130	-	1,804,319	50,295,199

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

45 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 risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices and options' volatilities.

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 and other financial instruments like derivatives. 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 have set risk limits based on the sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported regularly to the Senior Management and discussed by ALCO.

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 Management Risk and Credit Committee (MRCC) 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

Risk identification and classification

The MRCC 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.

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.

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

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.

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 consolidated income statement.

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 manage risk 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.

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.

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
- 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.

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

Sensitivity Analysis

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 and foreign currency exchange rate risks (parallel rate shock) is analysed separately for the Bank's trading portfolio as follows:

Market risk - Trading portfolio

The following table depicts the sensitivity of fair valuations in the Trading Book to hypothetical, instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Interest rate risk

Parallel Rate Moves in AED interest rate basis point (AED'000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2009	**55,246**	**25,736**	**(20,382)**	**(33,303)**
December 31, 2008	(4,605)	(7,168)	20,185	57,299

Parallel Rate Moves in US$ interest rate basis point (AED'000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2009	**(49,565)**	**(22,300)**	**9,335**	**6,475**
December 31, 2008	3,648	7,894	(25,388)	(73,833)

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

45 Market risk framework, measurement and monitoring (continued)

Market risk - Trading portfolio (continued)

Currency wise

The following table depicts the sensitivity of fair valuations in the Trading Book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Price Shock in Percentage (AED'000):

		+10%	+5%	-5%	-10%
December 31, 2009	AUD	168	84	(84)	(168)
	EUR	(43)	(21)	21	43
	GBP	(11)	(5)	5	11
	JPY	(64)	(32)	32	64
	US$	(6,998)	(3,655)	4,051	8,553
December 31, 2008	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

Market risk – Non-trading portfolio

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

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 AED'000	Sensitivity of equity AED'000
December 31, 2009	+25	48,760	(11,190)
	-25	(48,760)	11,190
December 31, 2008	+25	55,148	(29,996)
	-25	(55,148)	29,996

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 trading and non-trading equity price risk exposure arises from the Bank's investment portfolio.

46 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 92,459 thousand (2008 – AED 73,243 thousand) held in India are subject to the exchange control regulations of India.

47 Trust activities

As at December 31, 2009, the net asset value of the funds under the management of the Bank amounted to AED 1,980,119 thousand (2008 – AED 1,137,801 thousand).

48 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 are as follows:

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

48 List of subsidiaries (continued)

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. (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 advisory services.
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	2009	U.A.E.	Islamic banking.
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 service agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Holding company for infrastructure investments.
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.
ADCB Fund Management S.A.R.L.	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Feeder Fund	82%	2009	Luxembourg	Mutual Fund.
ADCB MSCI Arabian Markets Index Fund (note (ii) below)	100%	2009	U.A.E.	Mutual Fund.
ADCB MSCI Arabian Markets Index Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.

(*) These subsidiaries are dormant.

(i) The Bank shares its profit in Abu Dhabi Risk & 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 & Treasury Solutions L.L.C.

(ii) The Bank also holds 39% in ADCB MSCI Arabian Markets Index Fund through its 100% subsidiary ADCB MSCI Arabian Markets Index Feeder Fund. Accordingly, effective holding of the Bank in ADCB MSCI Arabian Markets Index Fund comes to 96% (Note 11).

49 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 statement of financial position, 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
- 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 regulators on a monthly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated November 17, 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. 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.

Further, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at a minimum of 11% at all times increasing to 12% by June 30, 2010.

Notes to the consolidated financial statements

for the year ended December 31, 2009 (continued)

49 Capital adequacy and capital management (continued)

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

	Basel II		Basel I	
	2009 AED'000	2008 AED'000	**2009 AED'000**	2008 AED'000
Tier 1 capital				
Share capital	4,810,000	4,810,000	4,810,000	4,810,000
Statutory and legal reserves	2,627,979	2,627,979	2,627,979	2,627,979
General and contingency reserves	2,150,000	2,150,000	2,150,000	2,150,000
Employees' incentive plan shares, net	(13,438)	(25,708)	(13,438)	(25,708)
Foreign currency translation reserve	(353,736)	(392,022)	(353,736)	(392,022)
Proposed dividends	-	481,000	-	481,000
Retained earnings	1,360,623	1,837,125	1,360,623	1,837,125
Non-controlling interest in equity of subsidiaries	69,087	107,603	69,087	107,603
Mandatory convertible securities	4,742,932	4,802,318	4,742,932	4,802,318
Capital notes	4,000,000	-	4,000,000	-
Less: Investments in associates (50%)	(2,291,330)	(2,213,765)	(2,291,330)	(2,213,765)
	17,102,117	14,184,530	17,102,117	14,184,530
Tier 2 capital				
Collective impairment allowance on loans and advances (Note 9)	1,504,854	1,059,272	1,504,854	1,059,272
Cumulative changes in fair value	(194,279)	(314,708)	(194,279)	(314,708)
Long term borrowings (Note 20)	6,617,456	-	6,617,456	-
Subordinated floating rate notes (Note 20)	1,328,891	1,469,200	1,328,891	1,469,200
Less: Investments in associates (50%)	(2,291,329)	(2,213,764)	(2,291,329)	(2,213,764)
	6,965,593	-	6,965,593	-
Total regulatory capital	24,067,710	14,184,530	24,067,710	14,184,530
Risk-weighted assets:				
On statement of financial position	-	-	128,512,025	114,152,139
Off balance sheet	-	-	14,963,529	16,399,817
Credit risk	126,294,138	114,377,569	-	-
Market risk	6,523,298	4,383,896	-	-
Operational risk	5,657,608	5,966,913	-	-
Total risk-weighted assets	138,475,044	124,728,378	143,475,554	130,551,956
Capital adequacy ratio	17.38%	11.37%	16.77%	10.87%

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 15.89% (2008 – 10.14%).

The capital adequacy ratio was above the minimum requirement of 11% for December 31, 2009 (December 31, 2008 – 10%) stipulated by the U.A.E. Central Bank.

50 Comparative figures

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

51 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 26, 2010.