




**ABU DHABI COMMERCIAL BANK**

ANNUAL REPORT 2006

An hourglass is positioned on the left side of the frame, with its top bulb partially visible at the top left and its bottom bulb extending towards the bottom left. The hourglass is made of clear glass and contains a small amount of brown sand. The sand is falling from the top bulb into the bottom bulb, creating a thin stream of sand in the center. The background is plain white.

**Abu Dhabi Commercial Bank.** The bank that rightly and promptly saw the challenges of the **future** with a progressive **vision**. The would-be banking trends of tomorrow were considered well in advance, to be in tune with the times and in touch with the people.

**Then.** Banks were merely “Business houses accepting and holding public deposits. Transferring depositor’s funds on order. Using funds to make loans, or purchases securities. Earning profits when interest on investments exceeds the amount of interest paid to depositors and other business cost.”

**Now.** Banking being old as civilisation, evolved for the better. Its simplicity of function advanced with newer definitions of banking. High degree of competence, technology, training, customer relationships, enterprise hospitality and fascinating banking products have become the order of the day. And it is this, the inventive trend, Abu Dhabi Commercial Bank wishes to carry forward. It’s our corporate commitment. For, **our vision. your future.**



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



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



	2006	2005
Total assets	22,077	15,651
Loans & advances net	16,996	11,480
Due from banks	2,740	2,720
Equity, excl. proposed dividends	2,573	2,344
Due to banks	2,170	1,647
Deposits from customers	11,850	9,240
Short and medium term borrowing	4,522	2,110
Capital / assets ratio	16%	19%
Capital / loans ratio	17%	20%
Operational expenses	205	140
Net profit	585	523

Please note all figures in USD millions

#### Our Mission

To build a partnership with our customers that lasts a lifetime by treating every customer as an individual, offering innovative products and unparalleled service and never forgetting that our customer has a choice

#### Our Vision

To be the number one bank of choice in the UAE. A constantly innovating, financially successful organisation of the highest integrity, respected by our customers, by our competitors and by the community.

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**Saeed Mubarak Al Hajeri**

Chairman of the Board  
Chairman, Executive Committee  
Compensation Committee Member

**Rashid Humaid Al Mazroui**

Board Member  
Chairman, Board Audit Committee

**Abdulla Khalil Al Mutawa**

Board Member  
Executive Committee Member

**Michael Carapiet**

Board Member

**Mohammad Darwish Mohammad Al Khouri**

Board Member  
Vice Chairman, Board Audit Committee

**Hamad Saeed Mohammad Al Badi**

Board Member  
Chairman, Recoveries Committee  
Board Audit Committee Member  
HR Committee Member

**Mohammad Sultan Ghanoom Al Hameli**

Board Member  
Executive Committee Member  
Recovery Committee Member  
Chairman, HR Committee

**Aamer Abdul Jalil Al Fahim**

Board Member  
Board Audit Committee Member  
Vice Chairman, Board Recovery Committee

**Jean Paul Villain**

Board Member  
Chairman, Compensation Committee  
Vice Chairman, Al Nokhitha Fund Advisory Committee





Success is the  
**PROGRESSIVE REALISATION** of a worthy ideal.  
We believe in it.

**To our shareholders:**  
Two great achievements defined our company's efforts in 2006. First, we accelerated the execution of our organic growth strategy, creating value for shareholders by building and expanding thousands of customer and client relationships across the country, which greatly increased our opportunities for value creation and future growth in the local and regional markets.



The second is that we continued the momentum we have launched in 2003, from our retail banking operations, we have continued to make improvements to products, services and the banking center experience are driving customer "delight" and revenue to all-time high. In our wholesale banking businesses, bankers are working together to bring a full range of investment banking products and services to more of our clients than ever before. In our wealth management business, we are expanding our financial advisor network and increasing market share across the nation's best and fastest-growing wealth markets.

While our staff members are working within their lines of business to build customer relationships, they also are reaching out to work with teammates across the bank to create new opportunities to deliver the full power of ADCB to our customers.

All this work is resulting in strong, consistent financial performance for our shareholders.

#### **Strategic vision, financial results**

In 2006, ADCB earned AED2.147 billion and was the most profitable bank in UAE. Our results exceeded our expectations in the most important financial categories, including earnings per share, net income, revenue and credit quality. I hope you will review our financial results in more detail in the financial summary in this report and the CEO report.

Our financial results in 2006 continued the strong returns we have posted for our shareholders over the past three years. In fact, we have met and exceeded the rising expectations of the market since the beginning of 2004.

Our strong profit growth provided us with multiple opportunities for capital deployment, which we pursue in three broad categories: investments in existing lines of business, finance of government projects and capital returned to shareholders.

Our internal investments are tightly focused on areas with strong long-term growth prospects.

Today, your Bank is developing the skills and tools that enable us to grow by taking the right risks, and by getting paid appropriately for the risks we take. We are continuing to build a risk and reward management structure and culture of shared responsibility, in which every member of staff—from front-line bankers to risk managers and auditors—are accountable for managing risks to help the bank grow.

We provide the financial capital that creates economic opportunity that is consistent and sustainable in financial returns for our shareholders.

In closing, I'd like to thank all our valuable Board members, executive management and all staff for their guidance during what has been a year of great progress and success. As we continue our work to deliver ever-higher standards of service and performance for our customers, our shareholders and our communities, I look forward to all we will accomplish together.

Thank you,



**Saeed Mubarak Rashed Al Hajeri**  
Chairman of the Board



ADCB has made it to where it rightfully belongs. The Board, the Management and the whole Staff spectrum are the instruments in our making.

Rashid Humaid Al Mazrouie

Board Member  
Chairman, Board Audit Committee



Our continuous research and holistic analyses of the banking business, coupled with the collective experience of our strategic team, has brought in for the Bank the projected results.

Abdulla Khalil Al Mutawa

Board Member  
Executive Committee Member



Honours were conferred to the Bank for its pioneering and leadership role in serving UAE's banking industry.

Michael Carapiet

Board Member



ADCB is steadfast in supporting the government's initiatives in building and improving the infrastructure of UAE.

Mohammad Darwish Mohammad Al Khouri

Board Member  
Vice Chairman, Board Audit Committee



The Awards we received reaffirmed the Bank's standing and authenticated the Bank's hard work towards maintaining high performance levels.

Hamad Saeed Mohammad Al Badi

Board Member  
Chairman, Recoveries Committee  
Board Audit Committee Member  
HR Committee Member





To attract the UAE Nationals, welcoming them to join the banking sector, is on the Bank's active agenda.

Mohammad Sultan Ghanoom Al Hameli

Board Member  
Executive Committee Member  
Recovery Committee Member  
Chairman, HR Committee



The efforts we have put in, and perseverance to excel, rolled over from 2005/06 with the same zeal.

Aamer Abdul Jalil Al Fahim

Board Member  
Board Audit Committee Member  
Vice Chairman, Board Recovery Committee



We are optimistic to carry forward our success story. Maintaining our winning streak in the UAE, and beyond, will be our mission.

Jean Paul Villain

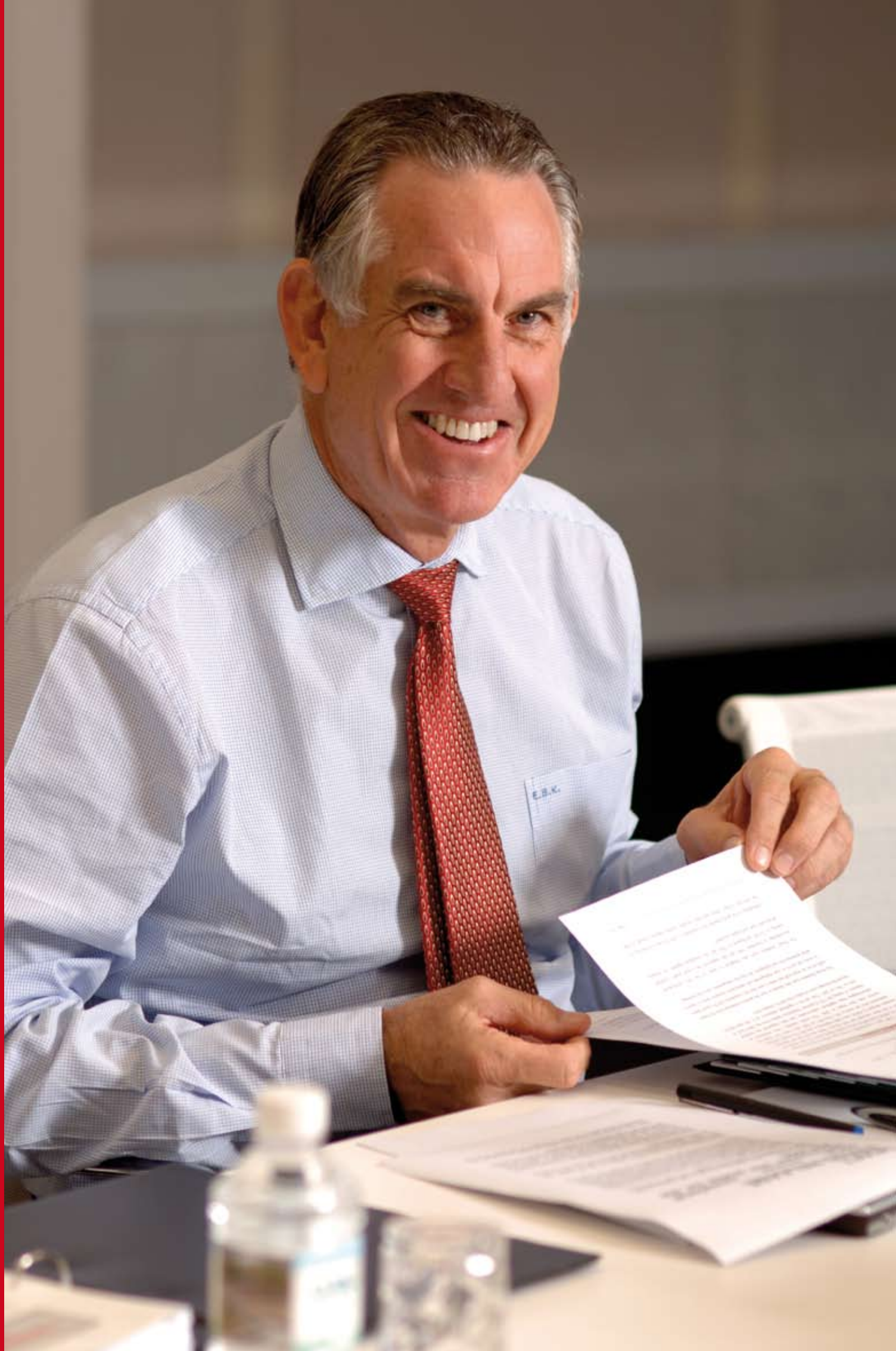
Board Member  
Chairman, Compensation Committee

- Key highlights
- Performance at a glance
- Rewarded for excellence
- Customer satisfaction improves
- Highly motivated employees
- UAE banking- corporate, SME, HNW, and retail banking
- Retail banking-continuous innovation of retail products
- Corporate finance, investment banking
- Treasury and investments
- Operations
- Participating in nation-building
- Empowering the citizen
- Social responsibility
- Sponsoring a cause
- Consolidating our efficiencies; looking forward



REACHING HIGH, with values intact,  
is well worth the effort.  
We work for it.

ADCB began its transformation in late 2003 and success has followed since. In the pursuit of progress and sustained performance, the proactive participation of the Bank's Board and Management, coupled with the dedication of each and every member of the staff, were the winning components in ADCB's success story.



Thanks to the support and trust of ADCB's shareholders, our momentum extended from 2005/06 with the same zeal. This was reflected through our development of innovative products and services. Whether it be retail, institutional, corporate or investment finance, we offered immense value to our customers.

ADCB's continuous research and analyses of the banking markets we service, together with the collective experience of our team, has resulted in achieving record profits for 2006.

The Bank is pleased to highlight its overall accomplishments during 2006 at all levels. During this period major agreements were signed, strategic partnerships were struck, co-operative ventures were announced, and many awards received. The progress of the Bank has been verified and confirmed by a recent independent Customer Survey, validating the improvement of our services that match international standards.



Eirvin Knox  
Chief Executive Officer

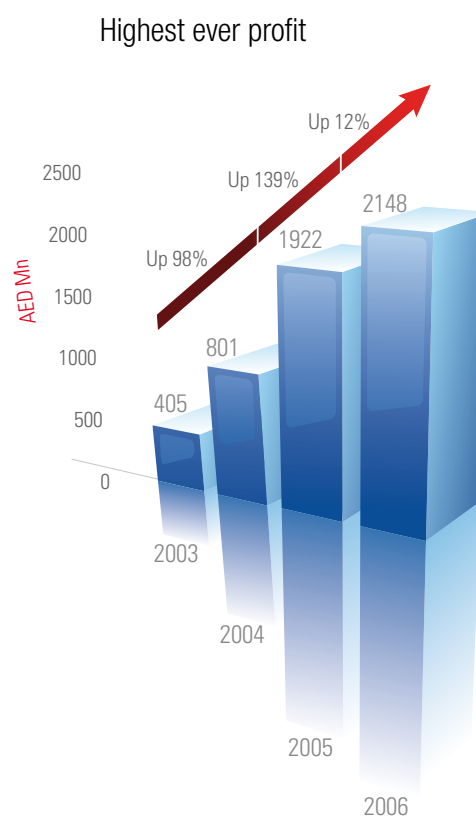


A dynamic organisation is driven by  
**CONTINUOUS IMPROVEMENT.**  
We go by it.



## Key Highlights

- Net profit of AED2.1billion, the highest in the Bank's history & among UAE banks.
- Large growth in assets.
- Access to international capital markets has given the bank stability, flexibility and liquidity for funding.
- Innovative and continuous retail product launches.
- Expansion in the high net worth segment.
- Strong position in the corporate banking sector.
- Customer base continues to grow.
- Improved customer satisfaction.
- Motivated work force.
- Emergence as a key player in all banking segments.



**AED2.147bn**

Net profit for 2006, an increase of 12%

**AED1.129bn**

Fee and Commissions 2006, an increase of 3%

**AED81.1bn**

The total assets at end of 2006, an increase of 41%

**AED43.4bn**

Deposits at the year-end, an increase of 28%

**AED11.4bn**

Total short and medium term borrowings 2006, an increase of 7.4billion over 2005



What nurtures remarkable  
**CORPORATE EFFICIENCY** is its own will.  
We live by it.

## Performance at a Glance

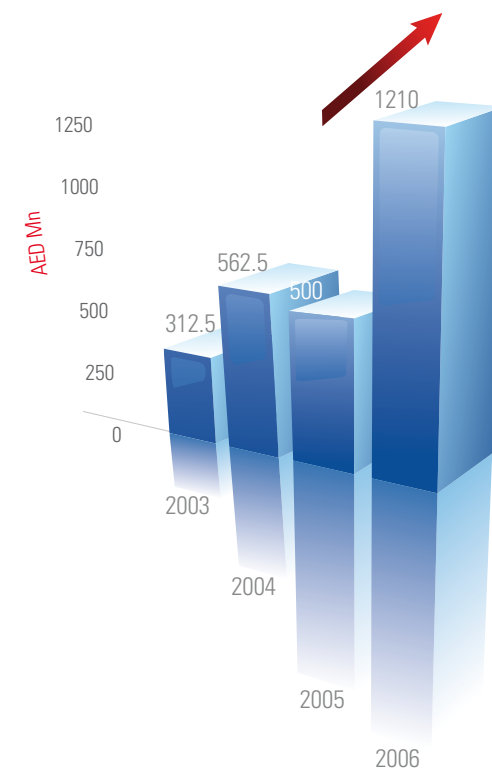
- Net profit for 2006 was AED2,147.1million compared with AED1,921.6million for 2005, an increase of 12%.
- ADCB sustained growth in its core businesses, despite a challenging year for the UAE market.
- Numerous strategic initiatives, which were launched in 2005, such as the Macquarie Bank Joint Venture for Treasury, has begun to contribute to the Bank's profitability.
- ADCB signed several JV Agreements with Zones Corp, Government of Abu Dhabi, and Macquarie Bank related to infrastructure development.
- Fee and Commissions of AED1,129million reflect an increase of 3% over 2005 fee income of AED1,093million. Core fee and Commissions exhibited strong growth of 11%, offsetting the decline in IPO-related income.
- The total assets at end of 2006 were AED81.1billion compared with AED57.7billion in 2005, reflecting an increase of 23.4billion, i.e. 41%.
- Deposits at the year-end were AED43.4billion, an increase of AED9.5billion over 2005 deposits of AED33.9billion, up 28%.
- Cost of funds during the year was well managed; medium-term borrowings continued to increase. At the end of the year, borrowings touched AED11.4billion, marking an increase of 7.4billion over 2005; closing balance of AED4billion. This increase is a reflection of the investors trust in ADCB.

- Return on average assets (ROAA) was 3% compared with 3.99% for 2005; still very healthy.
- Return on equity (ROE) of 21.6% was down by 25% compared with 28.8% for 2005. ROE in 2005 was higher because of the rights issue and lower capital base.

The ADCB Board recommended distributing AED1.21billion as Cash Dividend, 58% of 2006 net profit; reflecting an increase of almost four times the previous highest Cash Dividend of AED312.5million.

Many new initiatives supported the growth in all areas of business: The launch of the new Excellency Programme, Internet Banking for companies, ADCB@ctive, Treasury and Investment Banking joint ventures with Macquarie Bank, the Nokhitha Fund and the Al Dhabi Brokerage Services also contributed to the Bank's performance in 2006.

Highest ever dividend payout





SUSTAINED EXCELLENCE  
is the habitual trademark of a leader.  
We strive for it.

## Rewarded for excellence

For ADCB, 2006 was a year of awards, granted by various highly respected financial sector specialists. Honours were conferred to the Bank for its pioneering and leadership role in serving UAE's banking industry.

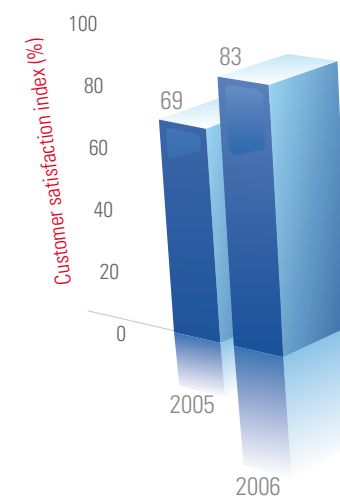
Such awards reaffirmed the Bank's standing and authenticated the Bank's hard work towards creating best practice standards, strengthening stakeholders' confidence, and maintaining continuous high performance levels.

- Credit rating from Moodys of Aa3 and Standard & Poors of A.
- Recipient of 2006 Emiratisation Award from H.H. Dr. Shaikh Sultan Bin Mohammed Al-Qassimi, Member of the Supreme Council, the Ruler of Sharjah.
- Pan Arab Golden Award for best web site under banks & financial institutions category.
- "Middle Eastern Financial Institution Bond of the Year" by Euro Money for GBP 500million bond.
- 'Best New Islamic Product in 2006 by Euro money for ADCB's Mudaraba Overdraft Facility.
- "Most improved Islamic Bank of the Year 2006" Award by Euro Money.
- ADCB "Best Brand" under the financial institutions category from Brand Finance Middle East.
- ADCB's "Dip the Chip" campaign declared winner in the new product launch category by GMR.
- ISO Certification 9001:2000 IPO Processing, Contact Centre, Service Quality and Internet.

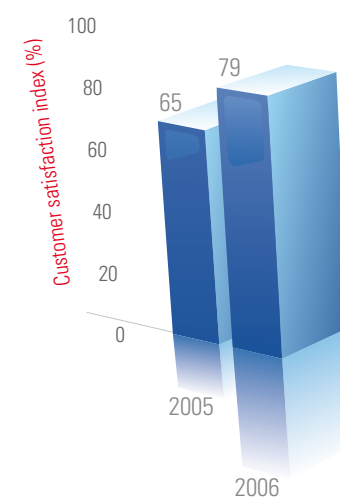
## Customer satisfaction improves

- Consumer Banking customer satisfaction improved to 83%.
- Business Banking customer satisfaction improved to 79%.
- 93% of the Internet banking customers were highly satisfied with the service.
- ADCB is the bank of first choice to 86% of the customers surveyed.
- 76% of those customers would recommend the bank to others.
- The above results are a reflection of ADCB's continued commitment to customer service.

Customer banking customer satisfaction index



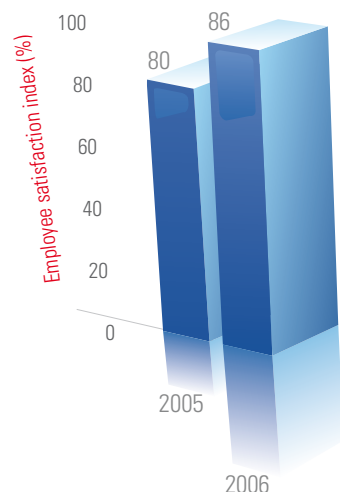
Business banking customer satisfaction index



## Highly motivated employees

- Employee satisfaction increased by 7% in 2006.
- 86% of the employees surveyed strongly believe that there have been several improvements in HR policies based on their suggestions.
- The highest positive score recorded was for management caring about employees and their welfare.
- ADCB is committed to providing career and training opportunities to all employees.
- Training budget has nearly doubled to AED14million in 2006 from AED8million in 2005.

Employee satisfaction index



## UAE Banking- Corporate, SME, HNW, and Retail Banking

- Continuing to capitalize on the excellent economic conditions.
- Rapid growth in loan book despite challenging competitive environment.
- Active role in the IPO segment.
- Significant improvement in customer service by focusing on Relationship Management.
- ADCB won the open bid by Abu Dhabi Government to manage 3,400 existing and new commercial buildings across Abu Dhabi (Khalifa Committee) under PPP arrangement.
- Launch of Internet Banking and SMS.
- Launch of Islamic Banking products.
- Created ADCB Meethaq “Shariah Compliant Financial Solutions.”
- Launched first ever Shariah Compliant Takaful Savings Plan -- ADCB Meethaq Takaful Saving Plan.
- Created first ever Mudarabah Overdraft Facility; won Best New Islamic Product for 2006 by Euromoney.
- Al Dhabi Brokerage fully operational in 2006.

## Retail banking-continuous innovation of retail products

- Mortgages – Most respected provider
  - Customized promotions with leading developers
- Smart Loans
  - Market First – retail tie-ups
  - Loans at point of sale
- Auto Loans
  - Unique program with Mercedes
- Personal Loans
  - Unique ‘Summer Promotion’ with Plug-ins
- Mobile Banking – SMS and e-mails
  - Alerts
  - Enquiries
  - Payments
- Million Dollar Dreams
  - 5,000 customers in 10 months
  - MDD-2 already 30% subscribed in 1 month
- All-in-One Account
  - First “Balance Transfer” program
  - 36,000 customers in 20 months
- Successful foray into Islamic products
  - Takaful Savings Plan
  - Mudaraba Deposits
- Best brokerage centre for local market
  - Dubai & Abu Dhabi
  - Call Centre & Internet solution

## Corporate finance, investment banking

ADCB performed well in capital markets deals too, by providing financial services to the public while improving upon those services to match international standards. Through 2006, efforts were driven towards meeting clients' complex financial needs. Unsurprisingly, ADCB emerged as a dominant player in corporate banking driven by its core strengths in financing projects in diversified sectors such as infrastructure, shipping, civil aviation and many other industries.

Wholesale Funding and Investments continued to enjoy its role in the Bank's strategic business focus. This was due to the positive appraisal and upgrading of the Bank's credit ratings by Moodys and Standard & Poors; making it the "Best rated Bank in the Middle East." Second, the Bank's desire to lengthen its liability profile (to improve liquidity) in order to develop a diversified portfolio of well-rated structured credit investments and income stream, also contributed to the importance of Wholesale Funding.

- Forefront role in the development of infrastructure projects.
- Prestigious deal concluded with our national air carrier.
- Concluded AED2.8billion landmark deal with Dubai Festival City.
- Several deals concluded with various projects, such as:
  - Palm Water
  - Sama Dubai
  - Atlantis
- Infrastructure deals in India for Toll Roads and Hyderabad Airport.

## Treasury and investments

- Customer focused business offering a full suite of structured solutions in interest rates, commodities, and foreign exchange for ADCB customers.
- Highly skilled team, enabling all pricing, trading, and book running to be done locally.
- Risk management advisors to our key customers. Feedback has been very positive.
- First local bank to offer online FX platform [FX Freeway] to customers.
- Business growth has exceeded all expectations.

International borrowing further strengthened and diversified funding base

- Issued 10-year subordinated debt totalling USD 400million – 1st UAE bank to issue Lower tier 2 capital.
- Issued 7- and 10-year fixed-rate AED bonds totalling AED 1.5 billion – 1st Middle Eastern bank to issue into this market.
- Issued 5-year fixed-rate GBP bond totalling GBP 500million – Voted "Middle Eastern Financial Institution Bond of the Year" by Euroweek Magazine. First Middle Eastern bank to issue into this market.
- Established Euro Commercial Paper Programme.
- Established Australian Dollar Medium Term Note Programme to be utilized in 2007.

## Investments

- Building a diversified portfolio of well-rated structured credit investments.
- Diversification of income stream.
- Liquidity of portfolio.

## Operations

- ADCB operations team committed to improving service quality.
- Service targets and turn-around times set for all customer operations.
- Regular monitoring of operational effectiveness and remedial action through regular reviews.
- Critical customer services areas such as Contact Centre, Service Quality, Interact and the IPO centre, have accomplished ISO 9001:2000 Certification.
- ATM uptime 99.5%+.
- Internet uptime 100%.



## Participating in nation-building

ADCB is steadfast in supporting the governments' initiatives in building and improving the infrastructure of UAE. With the establishment of Zones Corp Infrastructure Fund, in collaboration with Zones Corp and Macquarie Bank, ADCB efficiently facilitated the way to provide a solid base for a full range of sophisticated infrastructure and services in Abu Dhabi.

The ADCB - Macquarie Bank Ltd. real estate partnership was founded in 2006. The global investment banking and real estate experience of the Macquarie Bank works in tandem with ADCB's local and regional strength. This partnership will invariably benefit ADCB's clientele with the most innovative funds that will cover a broad range of real estate sectors in UAE, and in other markets around the world as well.





## Empowering the citizen

ADCB achieved significant results, through its integrated approach in the field of Emiratisation. The Emiratisation programme is a Bank-wide objective towards which Board Members and Senior Management place tremendous importance. To create more jobs for Nationals was the essential aim of the programme; ADCB has supported and facilitated the Government mandates to increase the number of National skills in this vital economic sector. These enhanced efforts, enabled us to emiratise 20.70% of our manpower across different segments of the Bank all over the UAE.

Our Human Resources Group is currently implementing an ambitious training plan and practical learning programmes for new National employees to provide them with the necessary banking skills –to perform their duties successfully. To attract UAE Nationals to join the banking sector is a priority. The strategy will be of recruiting Nationals, male and female, across the board for different specializations. Ensuring a better future for the younger generation; inviting them to partake in the banking sector and contributing towards a healthier national economy, is the clear purpose of this strategy.

## Social responsibility

Besides the cause of providing education services to UAE Nationals, the bank has donated AED25million to the Emirates Foundation Fund adhering to its nature of corporate citizenry.

As part of ADCB's corporate social responsibility, 10 differently-abled UAE Nationals were recruited from Abu Dhabi Rehab Centre. They are being provided with training and development required to pursue their career ambitions, regardless of their disability. ADCB, as part of its value-added service, provides free-of-charge ATM cards to the beneficiaries of Social Aid Programme – simplifying the process for the clients and community. This unique service, in collaboration with and final approval of the concerned ministry officials, is designed to specifically facilitate Social Aid Payment.

ADCB launched the first Shariaah-compliant Takaful and Savings Programme, to deliver Islamic financial solutions and carry out its social responsibility towards meeting the expectations and needs of the public.

ADCB deployed more than 100 ATM Camera DVR Systems to ensure maximum security and protection for all transactions. The best online banking service also offered in the most secured environment.

## Sponsoring a cause

To augment its partnering role in the economic development of the UAE, ADCB took the leadership role as a Golden Sponsor of the 12th Abu Dhabi International Petroleum Exhibition & Conference. ADCB was also the Golden Sponsor of the Abu Dhabi Hunting & Equestrian Exhibition, an initiative driven by its commitment to support the country's culture and heritage. Besides these mentioned sponsorships, ADCB has supported many other charity activities in 2006.

## Consolidating our efficiencies; looking forward

Abu Dhabi and the United Arab Emirates are experiencing unprecedented growth that should continue for many years. The challenges of managing this future growth will be many and ADCB is very well positioned to participate in and prosper in this environment.

The Board and Management have taken steps in recent years to prepare ADCB to take full advantage of the emerging opportunities that have resulted from Government initiatives in diversification of the economy, expansion of infrastructure and the development of the tourism and the property sectors.

We are optimistic that ADCB will continue the success of 2006. The shared vision of ADCB being a leader in the UAE and the region by shareholders, the Board, management and all the staff of the bank will assure our success.





TOTAL ASSESTS US\$000

**\$22,076,879**

TOTAL LIABILITIES US\$000

**\$19,157,146**

TOTAL EQUITY US\$000

**\$2,919,733**



## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the financial statements*

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 38 to 73

### *Management's Responsibility for the Consolidated financial statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

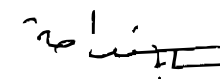
relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes 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 Group as of December 31, 2006, 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 UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.



Saba Y. Sindaha  
Registration Number 410  
January 21, 2007



	Notes	2006 AED'000	2005 AED'000	2006 US\$'000
<b>ASSETS</b>				
Cash and balances with Central Banks	4	1,898,457	1,702,321	516,868
Deposits and balances due from banks	5	10,065,209	9,989,250	2,740,325
Trading investments	6	77,630	392,836	21,135
Loans and advances, net	7	62,424,649	42,164,061	16,995,548
Non trading investments	8	3,700,744	1,771,454	1,007,553
Other assets	9	2,409,665	1,302,200	656,048
Property, plant and equipment, net	10	512,024	403,192	139,402
<b>Total assets</b>		<b>81,088,378</b>	<b>57,725,314</b>	<b>22,076,879</b>
<b>LIABILITIES</b>				
Due to banks	11	7,970,187	6,049,451	2,169,939
Customers' deposits		43,396,851	33,937,379	11,815,097
Short and medium term borrowings	12	16,610,194	7,749,484	4,522,242
Other liabilities	13	2,386,968	1,370,587	649,868
<b>Total liabilities</b>		<b>70,364,200</b>	<b>49,106,901</b>	<b>19,157,146</b>
<b>EQUITY</b>				
Share capital	15	4,000,000	4,000,000	1,089,028
Statutory and legal reserves	16	1,983,157	1,566,833	539,928
General and contingency reserves	16	2,075,000	2,000,000	564,933
Proposed dividends	17	1,210,000	-	329,431
Cumulative change in fair values		47,329	75,881	12,886
Retained earnings		1,342,892	966,216	365,612
<b>Equity attributable to equity holders of the parent</b>		<b>10,658,378</b>	<b>8,608,930</b>	<b>2,901,818</b>
<b>Minority interest</b>		<b>65,800</b>	<b>9,483</b>	<b>17,915</b>
<b>Total equity</b>		<b>10,724,178</b>	<b>8,618,413</b>	<b>2,919,733</b>
<b>Total liabilities and equity</b>		<b>81,088,378</b>	<b>57,725,314</b>	<b>22,076,879</b>
<b>Commitments and contingent liabilities</b>	25	<b>39,232,789</b>	<b>25,279,915</b>	<b>10,681,402</b>



Saeed Al Hajeri  
Chairman



Eirvin Knox  
Chief Executive Officer

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

	Notes	2006 AED'000	2005 AED'000	2006 US\$'000
Interest income	18	<b>4,127,608</b>	2,449,349	<b>1,123,770</b>
Interest expense	19	<b>(2,353,617)</b>	(1,076,741)	<b>(640,789)</b>
<b>Net interest income</b>		<b>1,773,991</b>	1,372,608	<b>482,981</b>
Net fee and commission income	20	<b>1,129,246</b>	1,092,970	<b>307,445</b>
Net gains from dealing in foreign currencies		<b>72,076</b>	67,005	<b>19,624</b>
Net gain on dealing in derivatives		<b>109,396</b>	19,114	<b>29,784</b>
Dividend income		<b>3,785</b>	2,446	<b>1,030</b>
(Loss)/gain on trading and non trading investments	21	<b>(28,224)</b>	66,219	<b>(7,684)</b>
Other operating income		<b>36,908</b>	29,546	<b>10,048</b>
<b>Operating income</b>		<b>3,097,178</b>	2,649,908	<b>843,228</b>
Staff expenses		<b>(440,218)</b>	(311,675)	<b>(119,852)</b>
Depreciation	10	<b>(41,064)</b>	(27,297)	<b>(11,180)</b>
Other operating expenses		<b>(272,597)</b>	(176,547)	<b>(74,216)</b>
Allowance for doubtful loans and advances, net of recoveries	7	<b>(193,470)</b>	(212,425)	<b>(52,674)</b>
<b>Operating expenses</b>		<b>(947,349)</b>	(727,944)	<b>(257,922)</b>
<b>Profit from operations, before taxation</b>		<b>2,149,829</b>	1,921,964	<b>585,306</b>
Overseas income tax expense	14	<b>(2,630)</b>	(422)	<b>(716)</b>
<b>Net profit for the year</b>		<b>2,147,199</b>	1,921,542	<b>584,590</b>
<b>Attributed to:</b>				
Equity holders of the parent		<b>2,081,617</b>	1,912,176	<b>566,735</b>
Minority interest		<b>65,582</b>	9,366	<b>17,855</b>
<b>Net profit for the year</b>		<b>2,147,199</b>	1,921,542	<b>584,590</b>
<b>Basic earnings per share (AED)</b>	22	<b>0.52</b>	0.49	<b>0.14</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed bonus share issue AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
<b>Balance at January 1, 2005</b>		1,250,000	614,592	569,805	1,775,000	150,000	250,000	312,500	21,258	17,166	4,960,321	-	4,960,321
Dividends paid	17	-	-	-	-	-	-	(312,500)	-	-	(312,500)	-	(312,500)
Net profit for the year 2005		-	-	-	-	-	-	-	-	1,912,176	1,912,176	9,366	1,921,542
Bonus issue of shares	15	750,000	-	-	-	-	(250,000)	-	-	(500,000)	-	-	-
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	-	-	(3,105)	(3,105)	-	(3,105)
Transfer to statutory reserve	16	-	191,218	-	-	-	-	-	-	(191,218)	-	-	-
Transfer to legal reserve	16	-	-	191,218	-	-	-	-	-	(191,218)	-	-	-
Transfer to general reserve	16	-	-	-	75,000	-	-	-	-	(75,000)	-	-	-
Increase/(decrease) in fair value of available for sale investments		-	-	-	-	-	-	-	55,061	-	55,061	-	55,061
Shares issued through rights offering	15	2,000,000	-	-	-	-	-	-	-	-	2,000,000	-	2,000,000
Minority share of capital in subsidiary		-	-	-	-	-	-	-	-	-	-	117	117
Board of directors' remuneration		-	-	-	-	-	-	-	-	(1,850)	(1,850)	-	(1,850)
Realised gain on sale of available for sale investments		-	-	-	-	-	-	-	(438)	-	(438)	-	(438)
Realised gain on sale of available for sale investments (previously included in retained earning on adoption of IAS 39)		-	-	-	-	-	-	-	-	(735)	(735)	-	(735)
<b>Balance at December 31, 2005</b>		4,000,000	805,810	761,023	1,850,000	150,000	-	-	75,881	966,216	8,608,930	9,483	8,618,413



	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed bonus share issue AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
<b>Balance at January 1, 2006</b>		4,000,000	805,810	761,023	1,850,000	150,000	-	-	75,881	966,216	8,608,930	9,483	8,618,413
Dividends paid	17	-	-	-	-	-	-	-	-	-	-	(9,265)	(9,265)
Net profit for the year 2006		-	-	-	-	-	-	-	-	2,081,617	2,081,617	65,582	2,147,199
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	-	-	1,087	1,087	-	1,087
Transfer to statutory reserve	16	-	208,162	-	-	-	-	-	-	(208,162)	-	-	-
Transfer to legal reserve	16	-	-	208,162	-	-	-	-	-	(208,162)	-	-	-
Transfer to general reserve	16	-	-	-	75,000	-	-	-	-	(75,000)	-	-	-
Increase/decrease in fair value of available for sale investments		-	-	-	-	-	-	-	(28,401)	-	(28,401)	-	(28,401)
Board of directors' remuneration		-	-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised gain on sale of available for sale investments		-	-	-	-	-	-	-	(151)	-	(151)	-	(151)
Realised loss on sale of available for sale investments (previously included in retained earning on adoption of IAS 39)		-	-	-	-	-	-	-	-	46	46	-	46
Proposed cash dividends	17	-	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
<b>Balance at December 31, 2006</b>		4,000,000	1,013,972	969,185	1,925,000	150,000	-	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178

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

	Notes	2006 AED'000	2005 AED'000	2006 US\$ 000
<b>OPERATING ACTIVITIES</b>				
Net profit before taxation and minority interest		2,149,829	1,921,964	585,306
<b>Adjustments for:</b>				
Currency translation		956	(2,909)	260
Depreciation		41,064	27,297	11,180
Gain on sale of property, plant and equipment		(25)	(466)	(7)
Allowance for doubtful loans and advances		339,293	318,594	92,375
Recovery of allowance for doubtful loans and advances		(145,823)	(106,169)	(39,701)
Gain on sale of non trading investments		(11,467)	(20,396)	(3,122)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>2,373,827</b>	<b>2,137,915</b>	<b>646,291</b>
Decrease/(Increase) due from banks		455,112	(2,341,129)	123,907
Increase in loans and advances to customers		(20,454,058)	(13,874,948)	(5,568,761)
Decrease/(increase) in trading investments		315,206	(95,825)	85,817
Increase in other assets		(1,030,514)	(597,436)	(280,565)
Decrease in due to banks		(1,312,767)	(576,996)	(357,410)
Increase in customers' deposits		9,459,472	4,384,299	2,575,408
Increase in other liabilities		964,260	421,400	262,527
<b>Cash used in operations</b>		<b>(9,229,462)</b>	<b>(10,542,720)</b>	<b>(2,512,786)</b>
Directors' remuneration paid		(1,850)	(1,850)	(504)
Overseas taxation paid		(2,630)	-	(716)
<b>Net cash used in operations</b>		<b>(9,233,942)</b>	<b>(10,544,570)</b>	<b>(2,514,006)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of non trading investments		(3,705,912)	(1,485,273)	(1,008,961)
Proceeds from sale of non-trading investments		1,759,583	2,024,180	479,059
Purchase of property, plant and equipment		(149,776)	(229,913)	(40,778)
Proceeds from sale of property, plant and equipment		36	813	10
<b>Net cash (used in)/ from investing activities</b>		<b>(2,096,069)</b>	<b>309,807</b>	<b>(570,670)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from short and medium term borrowings		8,832,980	7,749,484	2,404,841
Shares issued		-	2,000,000	-
Dividends paid to Bank's shareholders		-	(312,500)	-
Dividends paid – minority shareholders		(9,265)	-	(2,523)
Minority shareholders contribution to share capital of subsidiary		-	117	-
<b>Net cash from financing activities</b>		<b>8,823,715</b>	<b>9,437,101</b>	<b>2,402,318</b>
<b>Decrease in cash and cash equivalents</b>		<b>(2,506,296)</b>	<b>(797,662)</b>	<b>(682,358)</b>
Cash and cash equivalents at beginning of the year		3,943,126	4,740,788	1,073,544
<b>Cash and cash equivalents at the end of the year</b>	23	<b>1,436,830</b>	<b>3,943,126</b>	<b>391,186</b>

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

## 1 Activities

Abu Dhabi Commercial Bank P.J.S.C. (the Bank) is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates. The Bank changed its name from Khalij Commercial Bank to Abu Dhabi Commercial Bank after merging with Emirates Commercial Bank and Federal Commercial Bank on July 1, 1985. The Bank carries on retail, commercial, investment, merchant, brokerage and fund management activities through its network of 40 branches in the United Arab Emirates and two branches in India and its subsidiaries.

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

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

The consolidated financial statements of the Bank are prepared in United Arab Emirate Dirhams (AED). The US Dollar (US\$) amounts are presented for the convenience of the reader.

## 2 Summary of significant accounting policies

### Basis of preparation

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

### Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations for the period beginning January 1, 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's presentations and disclosure in the consolidated financial statements.

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

• <b>IFRS 7</b> <i>Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures</i>	Effective for annual periods beginning on or after 1 January 2007
• <b>IFRS 8</b> <i>Operating Segments</i>	Effective for annual periods beginning on or after 1 January 2009
• <b>IFRIC 7</b> <i>Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies</i>	Effective for annual periods beginning on or after 1 March 2006
• <b>IFRIC 8</b> <i>Scope of IFRS 2</i>	Effective for annual periods beginning on or after 1 May 2006
• <b>IFRIC 9</b> <i>Reassessment of Embedded Derivatives</i>	Effective for annual periods beginning on or after 1 June 2006
• <b>IFRIC 10</b> <i>Interim Financial Reporting and Impairment</i>	Effective for annual periods beginning on or after 1 November 2006
• <b>IFRIC 11</b> <i>IFRS2: Group and Treasury Share Transactions</i>	Effective for annual periods beginning on or after 1 March 2007
• <b>IFRIC 12</b> <i>Service Concession Arrangements</i>	Effective for annual periods beginning on or after 1 January 2008

The adoption of this standard in future periods is expected to only impact certain disclosures in the consolidated financial statements of the Bank with respect to financial instruments.

The significant accounting policies adopted are as follows:

### Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for certain financial instruments which are carried at fair value. In addition, as more fully explained below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged. The accounting policies are consistent with those adopted in the previous year.

## 2 Summary of significant accounting policies (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements comprise the consolidated financial statements of the Bank and of the following subsidiaries:

Name of Subsidiary	Proportion of ownership interest	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	UAE	Agent in trading of financial instruments and stocks
Abu Dhabi Risk and Treasury Solutions L.L.C.	51%	UAE	Providing computer software and design in relation with risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	UAE	Real estate property management and investments

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

Up to the year 2011	51%
Year 2012 to year 2015	75%

The agreement with the minority shareholders also provides that the minority shareholders will not share any losses in this subsidiary.

All significant inter-company balances, income and expense items are eliminated on consolidation.

The financial statements of subsidiaries are prepared using similar policies as those used by the Bank.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Bank's equity therein. Minority interests consist of minority shareholders share in the net equity of the subsidiaries.

### Due from banks

Due from banks are stated at cost less any amounts written off and allowance for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment taken to the income statement.

### Investments

#### *Trading investments*

Investments are considered as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near future, or they form part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Trading investments are carried at fair value with any unrealised gain or loss arising from the change in fair value and realised gains and losses taken to the income statement.

## 2 Summary of significant accounting policies (continued)

### Investments (continued)

#### *Non-trading investments*

These are classified as follows:

- Held to maturity
- Available for sale

All investments are initially recognised at cost, being the fair value of the consideration given and in the case of non-trading investments including acquisition charges associated with the investment.

Premiums and discounts on investments designated as held to maturity are amortised on a systematic basis to maturity using the effective interest method and are taken to interest income.

#### *Held to maturity*

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

#### *Available for sale*

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

After initial recognition, investments which are classified as “available for sale” are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value of investments which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the income statement.

Any gains or losses arising from a change in fair value of available for sale investments which are part of an effective hedging relationship, are recognised directly in the income statement to the extent of the changes in fair value being hedged.

### Loans and advances

Loans and advances are stated at cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the income statement.

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

### Loan impairment

#### *Individually assessed loans*

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

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

## 2 Summary of significant accounting policies (continued)

### Loan impairment (continued)

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

#### *Collectively assessed loans*

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

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

#### *Performing loans*

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

#### *Retail loans with common features and which are not individually significant.*

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

#### *Renegotiated loans*

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently 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.

### Property, plant and equipment

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

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

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

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

### Capital work in progress

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

## 2 Summary of significant accounting policies (continued)

### Collateral pending sale

The Bank occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral is stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the income statement.

### Taxation

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

### Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

### Deposits

All money market and customer deposits are carried at cost less amounts repaid and adjustments for effective fair value hedges.

### Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

### Revenue and expense recognition

Interest income and expense and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

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

### Foreign currencies

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

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

### Cash and cash equivalents

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

### Repurchase and resale agreements

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

## 2 Summary of significant accounting policies (continued)

### 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 U.A.E. citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

### Derivative financial instruments

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, currency and interest rate options (both written and purchased).

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise.

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

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in shareholders' equity and the ineffective portion, if any, is recognised in the income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in equity, are transferred to the income statement in the same period in which the hedged transaction affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At any point in time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in equity is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

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

### Impairment and uncollectability of financial assets

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



## 2 Summary of significant accounting policies (continued)

### Trade and settlement date accounting

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

### Recognition and de-recognition of financial instrument

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

### Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics .

Equity investments, where there is no quoted market price, and in the absence of any financial information of the investee are carried at cost less impairment loss, if any.

### Offsetting of financial assets and liabilities

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

## 3 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 2, the management of the Bank has made certain judgements. These judgements mainly have a significant effect on the carrying amounts of loans and advances and the fair values of derivative financial instruments. The significant judgements made by the management in arriving at the carrying amounts of loans and advances and fair values of derivative financial instruments are summarised as follows:

### Loans and advances

The allowance for loan losses is established through charges to consolidated income statement in the form of an allowance for doubtful loans and advances. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for doubtful loans and advances and affect the consolidated income statement accordingly.

#### *Individually assessed loans*

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

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

- The amount expected to be realized on disposal 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 disposal of collaterals.

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

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

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

#### *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 economical and credit conditions, the magnitude of loans which may be impaired but not identified as of the balance sheet date.

#### **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 counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### **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 evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash.

#### **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; and
- 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.

### 4 Cash and balances with Central Banks

	2006 AED'000	2005 AED'000
Cash on hand	331,813	290,074
Balances with Central Banks	1,566,644	1,412,247
	1,898,457	1,702,321

### 5 Deposits and balances due from banks

	2006 AED'000	2005 AED'000
Current and demand deposits	46,242	81,081
Placements	10,018,967	9,908,169
	10,065,209	9,989,250

## 6 Trading investments

	2006 AED'000	2005 AED'000
Fair value	77,630	392,836

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

## 7 Loans and advances, net

	2006 AED'000	2005 AED'000
Overdrafts	15,692,786	14,548,158
Personal installment loans	5,099,215	4,498,700
Term loans	40,734,460	22,891,726
Credit cards	444,661	232,327
Other facilities	1,436,409	707,250
	63,407,531	42,878,161
Less: Allowance for doubtful loans and advances	(982,882)	(714,100)
	62,424,649	42,164,061

Loans and advances are stated net of allowance for non recovery. The movements in the allowance during the year were as follows:

	2006 AED'000	2005 AED'000
<b>At January 1</b>	<b>714,100</b>	793,054
Currency translation adjustment	701	(831)
Net amounts written back / (off)	74,611	(290,548)
Recoveries	(145,823)	(106,169)
Charge for the year	339,293	318,594
<b>At December 31</b>	<b>982,882</b>	714,100

### 7 Loans and advances, net (continued)

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

	2006			2005		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
<b>Economic sector</b>						
Agriculture	20,401	-	20,401	29,167	-	29,167
Energy	736,397	678,915	1,415,312	1,306,846	750,398	2,057,244
Trading	2,455,022	189,288	2,644,310	1,499,079	183,673	1,682,752
Construction	1,906,587	16,958	1,923,545	1,955,824	4,940	1,960,764
Transport	2,686,597	432,461	3,119,058	550,997	89,283	640,280
Personal	4,744,689	8,208	4,752,897	4,361,754	3,420	4,365,174
Personal - others	21,257,950	807,087	22,065,037	17,934,826	197,229	18,132,055
Government	2,837,996	-	2,837,996	4,582,566	-	4,582,566
Financial Institution	7,361,006	2,486,488	9,847,494	395,147	2,323,533	2,718,680
Manufacturing	1,551,050	413,615	1,964,665	1,389,918	281,080	1,670,998
Services	9,356,043	2,609,229	11,965,272	2,462,970	692,443	3,155,413
Others	814,814	36,730	851,544	1,844,959	38,109	1,883,068
<b>Total</b>	<b>55,728,552</b>	<b>7,678,979</b>	<b>63,407,531</b>	38,314,053	4,564,108	42,878,161
Less: Allowance for doubtful loans and advances			(982,882)			(714,100)
<b>Total</b>			<b>62,424,649</b>			42,164,061

As at December 31, 2006, gross non performing loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 1,417,553 thousand (2005 – AED 1,250,000 thousand). Included in gross non performing loans and advances is interest in suspense amounting to AED 306,158 thousand (2005 – AED 314,117 thousand).

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 667,680 thousand (2005 – AED 705,000 thousand). This loan arose as a result of the Government acquiring certain non-performing loans which were previously indemnified by the Government through a guarantee.

**8 Non trading investments**

	2006 AED'000	2005 AED'000
<b>Available for sale investments</b>		
Quoted investments	1,855,275	372,733
Unquoted investments	1,583,359	1,136,611
	<b>3,438,634</b>	<b>1,509,344</b>
<b>Held to maturity</b>		
Floating rate notes	262,110	262,110
	<b>3,700,744</b>	<b>1,771,454</b>

The fair value of held to maturity investments at December 31, 2006 approximates its carrying value.

Available for sale investments include an equity instrument for an amount of AED 51,000 thousand (2005 – AED 51,000 thousand) which is carried at cost in the absence of quoted market price or latest financial information of the investee. These investments are held for returns in the form of dividends and long term capital appreciation.

**9 Other assets**

	2006 AED'000	2005 AED'000
Interest receivable	574,598	259,264
Withholding taxation	86,062	86,271
Prepayments	108,072	60,019
Positive fair value of derivative (note 25)	998,544	383,105
Clearing receivables	190,461	130,562
Acceptances	290,178	240,957
Others	161,750	142,022
	<b>2,409,665</b>	<b>1,302,200</b>

**10 Property, plant and equipment, net**

	Freehold Properties	Leasehold properties	Furniture, equipment and vehicles	Computer equipment and accessories	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Cost or valuation</b>						
<b>At January 1, 2005</b>	200,497	13,903	53,103	56,509	65,625	389,637
Exchange difference	(165)	(2)	(178)	-	-	(345)
Additions during the year	204	5,593	4,130	45,970	174,016	229,913
Transfers	6,230	9,503	2,219	36,951	(54,903)	-
Disposals	(684)	-	(1,093)	-	-	(1,777)
<b>At January 1, 2006</b>	206,082	28,997	58,181	139,430	184,738	617,428
Exchange difference	86	1	121	-	-	208
Additions during the year	1,930	476	2,609	4,449	140,312	149,776
Transfers	234,228	1,470	18,363	27,641	(281,702)	-
Disposals	-	(4)	(181)	-	-	(185)
<b>At December 31, 2006</b>	442,326	30,940	79,093	171,520	43,348	767,227
<b>Depreciation</b>						
At January 1, 2005	92,712	10,067	40,763	44,976	-	188,518
Exchange difference	(13)	(1)	(135)	-	-	(149)
Charge for the year	9,034	1,605	5,090	11,568	-	27,297
Disposals	(372)	-	(1,058)	-	-	(1,430)
<b>At January 1, 2006</b>	101,361	11,671	44,660	56,544	-	214,236
Exchange difference	2	2	74	-	-	78
Charge for the year	14,612	2,828	6,752	16,872	-	41,064
Disposals	-	(2)	(173)	-	-	(175)
<b>At December 31, 2006</b>	115,975	14,499	51,313	73,416	-	255,203
<b>Net book value</b>						
At December 31, 2006	326,351	16,441	27,780	98,104	43,348	512,024
At December 31, 2005	104,721	17,326	13,521	82,886	184,738	403,192

Property, plant and equipment, including land, acquired at July 1, 1985 are reported at the determination of net realizable value at that date.

**11 Due to banks**

	2006 AED'000	2005 AED'000
Current and demand deposits	171,848	346,137
Deposits maturing within one year	7,781,998	5,253,559
Deposits maturing after one year	16,341	449,755
	<b>7,970,187</b>	<b>6,049,451</b>

**12 Short and medium term borrowing**

**Unsecured notes**

Principal currency	Maturity	2006 AED '000	2005 AED '000
Japanese Yen (JPY)	2006	-	171,643
Singapore Dollar (SGD)	2006	-	176,746
US Dollar (US\$)	2006	-	257,110
Japanese Yen (JPY)	2007	46,275	-
Hong Kong Dollar (HKD)	2007	311,673	-
US Dollar (US\$)	2007	459,125	18,365
Euro (EUR)	2007	106,664	-
New Zealand Dollar (NZD)	2007	64,682	-
Swiss Francs (CHF)	2008	156,792	-
UAE Dirham (AED)	2009	365,000	-
US Dollar (US\$)	2009	422,395	146,920
US Dollar (US\$)	2010	3,673,000	3,305,700
Japanese Yen (JPY)	2011	154,250	-
US Dollar (US\$)	2011	36,730	-
Swiss Francs (CHF)	2011	904,568	-
Hong Kong Dollar (HKD)	2011	47,223	-
Pounds Sterling (GBP)	2011	3,595,592	-
UAE Dirhams (AED)	2013	1,000,000	-
Turkish Lira (TRY)	2016	96,295	-
		<b>11,440,264</b>	<b>4,076,484</b>
<b>Syndicated loan:</b>			
US Dollar (US\$)	2008	3,673,000	3,673,000
<b>Subordinated floating rate notes:</b>			
US Dollar (US\$)	2016	1,469,200	-
		<b>16,582,464</b>	<b>7,749,484</b>
Fair value adjustment of currency swap		27,730	-
		<b>16,610,194</b>	<b>7,749,484</b>

## 12 Short and medium term borrowing (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rate are as follows.

Japanese Yen Notes (Maturity 2007)	Fixed rate of 0.65% p.a.
Japanese Yen Notes (Maturity 2011)	Fixed rate of 1.66% p.a.
US Dollar Notes	3 months LIBOR plus 10 to 35 basis points
Singapore Dollar Notes	3 months SGD SWAP offer rate plus 7 basis points
Hong Kong Dollar Notes (Maturity 2007)	Fixed rate of 4.48% to 4.85% p.a.
Hong Kong Dollar Notes (Maturity 2011)	3 months HKD offer rate plus 35 basis points
Euro Notes	3 months LIBOR plus 12 basis points
Swiss Francs Notes	3 months LIBOR plus 14 to 35 basis points
UAE Dirham Notes (Maturity 2009)	3 months EIBOR plus 22 basis points
UAE Dirham Notes (Maturity 2013)	Fixed rate of 6% p.a.
Turkish Lira Notes	Fixed rate of 12.75% p.a.
Sterling Pounds	Fixed rate of 5.625% p.a.
New Zealand Dollar Notes	3 months NZD BBT FRA floating rate

Interest on the syndicated loan is payable quarterly in arrears at a coupon rate of 27.5 basis points above LIBOR for three months US dollar deposits. The Bank has the option to roll over the syndicated loan for a further period of two years from the date of maturity.

The subordinated floating rate notes were obtained from financial institutions outside of UAE and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (note 33) if these are not redeemed during 2011. This has been approved by the Central Bank of UAE.

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over LIBOR for three months US Dollar deposits.

The Bank also has an unsecured standby facility of US\$ 1,000,000 thousand (31 December 2005 – US\$ 925,000 thousand) from a consortium of banks with a drawdown period of one year.

## 13 Other liabilities

	2006 AED'000	2005 AED'000
Interest payable	376,662	213,801
Employees' end of service benefits	64,804	60,196
Accounts payable and other creditors	37,446	16,775
Clearing payables	289,411	218,842
Deferred income	139,279	79,139
Negative fair value of derivatives (note 25)	806,033	357,753
Acceptances	290,178	240,957
Others	383,155	183,124
	<b>2,386,968</b>	<b>1,370,587</b>



### 13 Other liabilities (continued)

The negative fair value of derivatives is in respect of derivatives held for trading and for hedging the fair value of certain loans and advances, investments and deposits. A corresponding adjustment has been made to the carrying value of these hedged items.

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit issued. In the current year, acceptances have been recognised on the consolidated balance sheet under other liabilities with a corresponding amount recoverable from customers recognised under other assets (note 9).

### 14 Taxation

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

### 15 Share capital

	Authorised AED'000	2006 Issued and fully paid AED'000	2005 AED'000
Ordinary shares of AED 1 each (2005 - AED 1 each)	4,000,000	4,000,000	4,000,000
	<b>2006</b> Number of shares	<b>2006</b> AED'000	<b>2005</b> Number of shares
As of January 1	4,000,000,000	4,000,000	125,000,000
Bonus issue as of March 6	-	-	25,000,000
	<b>4,000,000,000</b>	<b>4,000,000</b>	<b>150,000,000</b>
Share split as of September 18, 10 shares for 1 share	-	-	1,500,000,000
Bonus issue as of September 18	-	-	500,000,000
Rights issue as of October 10	-	-	2,000,000,000
<b>Balance as of December 31</b>	<b>4,000,000,000</b>	<b>4,000,000</b>	<b>4,000,000,000</b>

Abu Dhabi Investment Authority holds 64.841% (2005 : 64.841%) of the issued and fully paid up share capital.

### 16 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

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

**16 Reserves (continued)**

*Contingency reserve*

The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

**17 Proposed dividends**

For the year ended December 31, 2006, the Board of Directors have proposed to pay a cash dividend of AED 1,210,000 thousand (2005 : cash dividend of AED Nil and 33% bonus issue of shares amounting to AED 500,000 thousand) representing 30.25% of the paid up capital. This is subject to the approval of the shareholders in Annual General Meeting.

**18 Interest income**

	2006 AED'000	2005 AED'000
Loans and advances	3,433,620	1,916,860
Deposits with banks	522,255	366,242
Interest income from held to maturity and available for sale investments	167,173	137,922
Notional interest on impaired loans	4,560	28,325
	<b>4,127,608</b>	<b>2,449,349</b>

**19 Interest expense**

	2006 AED'000	2005 AED'000
Bank deposits	252,037	221,439
Customers' deposits	1,509,840	740,965
Short and medium term borrowing	591,740	114,337
	<b>2,353,617</b>	<b>1,076,741</b>

**20 Net fee and commission income**

	2006 AED'000	2005 AED'000
Underwriting fees - Initial Public Offerings (IPOs)	547,199	584,564
Fee income from trust and other fiduciary activities	77,036	140,342
Investment banking fees	55,045	-
Others	449,966	368,064
	<b>1,129,246</b>	<b>1,092,970</b>

**21 (Loss) / gain on trading and non trading investments**

	2006 AED'000	2005 AED'000
(Loss)/gain on trading investments	(39,691)	45,823
Gain on sale of available for sale investment	11,467	20,222
Gain on disposal of held to maturity investment	-	174
	<b>(28,224)</b>	<b>66,219</b>

**22 Basic earnings per share**

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

	2006	2005
Net profit for the year distributable to the shareholders of the bank (AED'000)	2,081,617	1,912,176
Weighted average number of shares in issue during the year (000's)	4,000,000	3,890,078
Basic earnings per share (AED)	0.52	0.49

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

**23 Cash and cash equivalents**

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

	2006 AED'000	2005 AED'000
Cash and balances with Central Banks	1,898,457	1,702,321
Due from banks	10,065,209	9,989,250
Due to banks	(7,970,187)	(6,049,451)
	<b>3,993,479</b>	<b>5,642,120</b>
Less: Due from banks – maturity more than 3 months	(2,734,158)	(3,189,270)
Add: Due to banks – maturity more than 3 months	177,509	1,490,276
	<b>1,436,830</b>	<b>3,943,126</b>

#### 24 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 balance sheet are as follows:

	2006 AED'000	2005 AED'000
<b>Loans and advances :</b>		
To Directors	33,662	53,869
To Key Managers	2,369	5,207
	<b>36,031</b>	<b>59,076</b>
<b>Customers' deposits :</b>		
From Directors	37,104	29,381
From major shareholders	3,673,000	3,673,000
From Key Managers	5,067	3,197
	<b>3,715,171</b>	<b>3,705,578</b>
<b>Investments in funds managed by the Bank- at fair values:</b>		
Held for trading investments	77,008	78,000
Available for sale investments	6,250	-
	<b>83,258</b>	<b>78,000</b>
<b>Irrevocable commitments and contingencies:</b>		
To Directors	74,859	92,828
To major shareholders	-	12,648
	<b>74,859</b>	<b>105,476</b>
Significant transactions with related parties during the year are as follows:		
	2006 AED'000	2005 AED'000
<b>Interest, fees and commission income:</b>		
- Directors	3,201	1,263
- Key Managers	101	74
	<b>3,302</b>	<b>1,337</b>

## 24 Related party transactions (continued)

Significant transactions with related parties during the year (continued):

	2006 AED'000	2005 AED'000
<b>Interest expense:</b>		
- Directors	212	76
- Major shareholders	175,726	54,243
- Key Managers	98	37
	<b>176,036</b>	54,356

The remuneration of key management staff during the year was as follows:

	2006 AED'000	2005 AED'000
<b>Short term benefits</b>	<b>24,447</b>	14,695

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

The remuneration of other key management staff is based on the remuneration agreed in accordance with their employment contracts.

## 25 Commitments and contingent liabilities

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

	2006 AED'000	2005 AED'000
<b>Commitments on behalf of customers</b>		
Letters of credit	2,931,974	2,427,265
Guarantees	13,312,039	10,213,666
Irrevocable commitments to extend credit	22,926,977	12,601,943
Commitments for future capital expenditure	53,152	19,748
Commitments to invest in non-trading investment	8,647	17,293
	<b>39,232,789</b>	25,279,915

### Credit-related commitments

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

## 25 Commitments and contingent liabilities (continued)

### Credit-related commitments (continued)

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.

### Derivative instruments

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

The table below shows the notional amounts of derivative financial instruments analysed by term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and represents the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

**25 Commitments and contingent liabilities (continued)**

	Notional amounts by term to maturity			
	<b>Total</b>	<b>Within 3 months</b>	<b>Within 3-12 months</b>	<b>Over 1 year</b>
	AED'000	AED'000	AED'000	AED'000
<b>At December 31, 2006</b>				
<b>Derivatives held for trading</b>				
Forward foreign exchange contracts	34,366	-	-	34,366
Interest rate swaps	29,594,656	9,246,209	4,841,347	15,507,100
Forward rate agreements	2,360,497	818,503	1,541,994	-
Options	7,578,962	6,483,822	-	1,095,140
Futures	3,371,860	3,371,860	-	-
Commodity forwards	4,003,805	316	16,152	3,987,337
Energy swaps	519,092	-	-	519,092
	47,463,238	19,920,710	6,399,493	21,143,035
<b>Derivatives held for hedging</b>				
Interest rate swaps	6,520,877	3,291,630	3,229,247	-
Forward foreign exchange contracts	33,708,295	26,353,772	7,298,062	56,461
	40,229,172	29,645,402	10,527,309	56,461
	87,692,410	49,566,112	16,926,802	21,199,496
<b>At December 31, 2005</b>				
<b>Derivatives held for trading</b>				
Forward foreign exchange contracts	1,766,990	185,471	1,581,519	-
Interest rate swaps	8,458,405	-	-	8,458,405
Forward rate agreements	1,875,806	1,395,740	480,066	-
Options	10,215,642	820,064	877,523	8,518,055
Futures	54,570	54,570	-	-
Commodity forwards	1,535	1,535	-	-
Energy swaps	598,508	-	598,508	-
	22,971,456	2,457,380	3,537,616	16,976,460
<b>Derivatives held for hedging</b>				
Interest rate swaps	1,093,048	18,365	718,911	355,772
Forward foreign exchange contracts	3,187,912	2,503,320	551,469	133,123
	4,280,960	2,521,685	1,270,380	488,895
	27,252,416	4,979,065	4,807,996	17,465,355

## 25 Commitments and contingent liabilities (continued)

### Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial institutions of good credit rating.

### Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to positioning and arbitrage activities. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates and indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. At December 31, 2006 the positive and negative fair values of these derivatives amounted to AED 803,716 thousand (2005 : 383,105 thousand) and AED 806,033 thousand (2005 : AED 357,753 thousand) respectively. These are included in other assets (note 9) and in other liabilities (note 13). The fair values of these derivatives are determined using suitable valuation models as discussed in note 3.

### Derivatives held or issued for hedging purposes

The Bank uses derivative instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges. The fair values of outstanding derivatives designated as fair value hedges at December 31, 2006 were assets of AED 194,828 (2005- AED Nil) thousand and liabilities of AED Nil (AED 2005- Nil). These are included in other assets (note 9) and in other liabilities (note 13).

Gains or (losses) arising from fair value hedges:

	2006 AED'000	2005 AED'000
On hedging instruments	194,828	-
On the hedged items attributable to the hedged risk	(194,828)	-
	-	-

The Bank has the following significant net exposures denominated in foreign currencies at December 31:

	2006 AED'000 equivalent long/(short)	2005 AED'000 equivalent long/(short)
US Dollar	1,625,406	(5,064,082)
Indian Rupees	(61,164)	48,411
Omani Riyal	(2,239)	2,048
Pound Sterling	(20,960)	(3,538)
Euro	214,770	1,218
Bahraini Dinar	100	73
Saudi Riyal	86	(533)
JP Yen	(1,100)	(1,486)



## 26 Segmental information

### Primary segment information

For operating purposes, the Bank is organised into two major business segments: (i) Commercial Banking, which principally provides loans and other credit facilities, deposit and current accounts for the Bank's customers, brokerage, a fund managing activities and (ii) Investment Banking, which involves the management of the Bank's investment portfolio, dealing in derivatives and its treasury activities. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year was as follows:

	Commercial Banking		Investment Banking		Total	
	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000
<b>Operating income</b>	<b>2,685,841</b>	2,428,964	<b>411,337</b>	220,944	<b>3,097,178</b>	2,649,908
Segment result and profit from operations	<b>1,860,348</b>	1,714,345	<b>289,481</b>	207,619	<b>2,149,829</b>	1,921,964
Minority interest		-	<b>(65,582)</b>	(9,366)	<b>(65,582)</b>	(9,366)
Net profit before income tax	<b>1,860,348</b>	1,714,345	<b>223,899</b>	198,253	<b>2,084,247</b>	1,912,598
Income tax expense unallocated					<b>(2,630)</b>	(422)
Net profit for the year					<b>2,081,617</b>	1,912,176
<b>Other information</b>						
Segment assets	<b>64,914,378</b>	36,525,906	<b>16,174,000</b>	21,199,408	<b>81,088,378</b>	57,725,314
Segment liabilities	<b>54,190,200</b>	27,907,493	<b>16,174,000</b>	21,199,408	<b>70,364,200</b>	49,106,901
Equity					<b>10,724,178</b>	8,618,413
<b>Total liabilities and equity</b>					<b>81,088,378</b>	57,725,314
Capital expenditure incurred during the year	<b>139,170</b>	190,209	<b>10,606</b>	39,704	<b>149,776</b>	229,913
Depreciation expense during the year	<b>39,148</b>	24,974	<b>1,916</b>	2,323	<b>41,064</b>	27,297

**26 Segmental information (continued)**

Secondary segment information

Although the Bank is organised primarily into business segments, the Bank operates in two geographic markets. The United Arab Emirates which is designated as Domestic and represent the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India. The following table shows the distribution of the Bank's operating income, total assets, total liabilities and capital expenditure by geographical segment.

	Domestic		International		Total	
	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000
<b>Operating income</b>	<b>3,081,697</b>	2,642,724	<b>15,481</b>	7,184	<b>3,097,178</b>	2,649,908
Profit/ (loss) before taxation	<b>2,142,920</b>	1,923,122	<b>6,909</b>	(1,158)	<b>2,149,829</b>	1,921,964
Income tax expense	-	-	<b>(2,630)</b>	(422)	<b>(2,630)</b>	(422)
Minority interest	<b>(65,582)</b>	(9,366)	-	-	<b>(65,582)</b>	(9,366)
Net profit/ (loss) for the year	<b>2,077,338</b>	1,913,756	<b>4,279</b>	(1,580)	<b>2,081,617</b>	1,912,176
Segment assets	<b>80,430,668</b>	57,247,802	<b>657,710</b>	477,512	<b>81,088,378</b>	57,725,314
Segment liabilities	<b>69,710,769</b>	48,627,809	<b>653,431</b>	479,092	<b>70,364,200</b>	49,106,901
Capital expenditure incurred during the year	<b>149,616</b>	229,561	<b>160</b>	352	<b>149,776</b>	229,913

## 27 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security where appropriate.

For details of the composition of the loans and advances portfolio refer to note 7. Information on credit risk relating to derivative instruments is provided in note 25.

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

	31 December 2006			31 December 2005		
	Carrying value	Off balance items	Maximum credit exposure	Carrying value	Off balance items	Maximum credit exposure
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Deposits and balances due from banks	10,065,209	-	10,065,209	9,989,250	-	9,989,250
Loans and advances, net	62,424,649	-	61,093,580	42,164,061	-	40,883,755
Non trading investments- Unquoted available for sale and held to maturity	1,845,469	8,647	1,854,116	1,398,721	17,293	1,416,014
Other assets	2,409,665	-	2,133,142	1,302,200	-	1,085,367
Bank guarantees	-	13,312,039	12,958,200	-	10,213,666	9,877,082
Letters of credit	-	2,931,974	2,897,797	-	2,427,265	2,406,642
Irrevocable commitments to extend credit	-	22,926,977	22,926,977	-	12,601,943	12,601,943
<b>Total</b>	<b>76,744,992</b>	<b>39,179,637</b>	<b>113,929,021</b>	<b>54,854,232</b>	<b>25,260,167</b>	<b>78,260,053</b>

## 28 Concentration of assets, liabilities and off balance sheet items

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

Geographic region	2006			2005		
	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000
Domestic (UAE)	59,882,466	45,650,394	29,762,851	40,336,088	40,923,323	15,784,853
Other GCC countries	4,654,492	3,941,019	1,868,656	3,643,537	2,969,155	1,980,100
Other Arab countries	674,714	1,367,594	238,005	574,770	913,371	308,146
Asia	7,239,587	2,997,885	3,215,187	5,238,325	2,665,588	3,270,622
Europe	5,372,049	26,362,195	3,700,458	4,172,739	9,188,503	3,118,208
USA	1,470,592	109,389	41,077	893,137	191,085	29,333
Rest of the World	1,794,478	659,902	406,555	2,866,718	874,289	788,653
<b>Total</b>	<b>81,088,378</b>	<b>81,088,378</b>	<b>39,232,789</b>	57,725,314	57,725,314	25,279,915
<b>Industry sector</b>						
Commercial & business	18,280,524	19,685,972	13,264,254	14,112,650	18,090,146	10,814,543
Personal	25,146,954	13,873,891	9,065,555	22,497,229	9,019,832	11,463,906
Public sector	12,832,673	6,296,933	6,659,949	1,715,208	4,497,610	1,172,943
Government	2,263,171	13,030,382	3,535,314	4,803,440	10,242,621	1,371,942
Banks and financial institutions	22,565,056	28,201,200	6,707,717	14,596,787	15,875,105	456,581
<b>Total</b>	<b>81,088,378</b>	<b>81,088,378</b>	<b>39,232,789</b>	57,725,314	57,725,314	25,279,915

## 29 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The substantial majority of the Bank's assets and liabilities reprice within one year. Accordingly, there is limited exposure to interest rate risk. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments (note 25).

Financial assets and liabilities that are subject to fair value interest rate risk are those with a fixed interest rate. Certain fixed rate loans and advances, non-trading investments and customer deposit fall under this category.

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

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

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

## 29 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2006 was as follows:

	Effective rate	Less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	Over 3 years	Non-interest bearing items	Total
		AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Assets</b>								
Cash and balances with Central Banks	-	-	-	-	-	-	1,898,457	1,898,457
Due from Banks	4.70	9,876,906	8,380	127,605	16,341	-	35,977	10,065,209
Trading investments	-	-	-	-	-	-	77,630	77,630
Loans and advances, net	6.87	44,640,980	7,783,135	856,983	757,367	7,270,424	1,115,760	62,424,649
Non trading investments	6.91	1,886,210	439,046	56,171	1,826	1,101,053	216,438	3,700,744
Other assets	-	-	-	-	-	-	2,409,665	2,409,665
Property, plant and equipment, net	-	-	-	-	-	-	512,024	512,024
<b>Total assets</b>		<b>56,404,096</b>	<b>8,230,561</b>	<b>1,040,759</b>	<b>775,534</b>	<b>8,371,477</b>	<b>6,265,951</b>	<b>81,088,378</b>
<b>Liabilities and Equity</b>								
Due to banks	4.45	7,844,420	31,329	-	-	-	94,438	7,970,187
Customers' deposits	3.75	32,121,554	1,473,732	1,710,549	222,275	667,680	7,201,061	43,396,851
Short and medium term borrowings	5.25	10,350,271	2,445,427	3,814,496	-	-	-	16,610,194
Other liabilities	-	-	-	-	-	-	2,386,968	2,386,968
Equity	-	-	-	-	-	-	10,724,178	10,724,178
<b>Total liabilities and equity</b>		<b>50,316,245</b>	<b>3,950,488</b>	<b>5,525,045</b>	<b>222,275</b>	<b>667,680</b>	<b>20,406,645</b>	<b>81,088,378</b>
<b>On-balance sheet gap</b>		<b>6,087,851</b>	<b>4,280,073</b>	<b>(4,484,286)</b>	<b>553,259</b>	<b>7,703,797</b>	<b>(14,140,694)</b>	<b>-</b>
<b>Off-balance sheet gap</b>		<b>75,296</b>	<b>(183,650)</b>	<b>73,460</b>	<b>89,989</b>	<b>(55,095)</b>	<b>-</b>	<b>-</b>
<b>Total interest rate sensitivity gap</b>		<b>6,163,147</b>	<b>4,096,423</b>	<b>(4,410,826)</b>	<b>643,248</b>	<b>7,648,702</b>	<b>(14,140,694)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>6,163,147</b>	<b>10,259,570</b>	<b>5,848,744</b>	<b>6,491,992</b>	<b>14,140,694</b>	<b>-</b>	<b>-</b>

Included in non-trading investments and due to banks are interest bearing amounts of AED 129,570 thousand and AED 188,555 thousand respectively relating to the Bank's overseas branches with effective rates of 7% and 7.14% respectively.

## 29 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2005 was as follows:

	Effective rate	Less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	Over 3 years	Non-interest bearing items	Total
		AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Assets</b>								
Cash and balances with Central Banks		-	-	-	-	-	1,702,321	1,702,321
Due from Banks	4.40	9,784,024	124,831	-	-	-	80,395	9,989,250
Trading investments		-	-	-	-	-	392,836	392,836
Loans and advances, net	5.98	33,396,482	2,206,654	309,751	397,004	5,469,216	384,954	42,164,061
Non trading investments	7.50	805,707	597,653	120,824	5,114	9,605	232,551	1,771,454
Other assets		-	-	-	-	-	1,302,200	1,302,200
Property, plant and equipment, net		-	-	-	-	-	403,192	403,192
<b>Total assets</b>		43,986,213	2,929,138	430,575	402,118	5,478,821	4,498,449	57,725,314
<b>Liabilities and Equity</b>								
Due to banks	4.31	5,015,763	-	730,192	-	-	303,496	6,049,451
Customers' deposits	3.10	22,377,057	1,812,954	1,349,838	252,249	786,452	7,358,829	33,937,379
Short and medium term borrowings	4.49	7,577,841	46,812	124,831	-	-	-	7,749,484
Other liabilities		-	-	-	-	-	1,370,587	1,370,587
Equity		-	-	-	-	-	8,618,413	8,618,413
<b>Total liabilities and equity</b>		34,970,661	1,859,766	2,204,861	252,249	786,452	17,651,325	57,725,314
<b>On-balance sheet gap</b>		9,015,552	1,069,372	(1,774,286)	149,869	4,692,369	(13,152,876)	-
<b>Off-balance sheet gap</b>		177,142	433,414	(443,435)	(18,365)	(148,756)	-	-
<b>Total interest rate sensitivity gap</b>		9,192,694	1,502,786	(2,217,721)	131,504	4,543,613	(13,152,876)	-
<b>Cumulative interest rate sensitivity gap</b>		9,192,694	10,695,480	8,477,759	8,609,263	13,152,876	-	-

Included in non-trading investments and due to banks are interest bearing amounts of AED 138,659 thousand and AED 32,612 thousand respectively relating to the Bank's overseas branches with effective rates of 6.9% and 7.25% respectively.

### 29 Interest rate risk (continued)

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.

### 30 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end is based on contractual repayment arrangements as follows:

	Total	Less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	3 years to less than 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Assets</b>							
Cash and balances with Central Banks	1,898,457	1,898,457	-	-	-	-	-
Deposits and balances due from banks	10,065,209	9,912,883	8,380	127,605	16,341	-	-
Trading investments	77,630	77,630	-	-	-	-	-
Loans and advances, net	62,424,649	21,309,974	3,706,877	3,561,742	7,013,558	10,083,538	16,748,960
Non trading investments	3,700,744	260,324	21,676	92,903	942,492	701,818	1,681,531
Other assets	2,409,665	2,409,665	-	-	-	-	-
Property, plant and equipment, net	512,024	-	-	-	-	-	512,024
<b>Total assets</b>	<b>81,088,378</b>	<b>35,868,933</b>	<b>3,736,933</b>	<b>3,782,250</b>	<b>7,972,391</b>	<b>10,785,356</b>	<b>18,942,515</b>
<b>Liabilities and Equity</b>							
Due to banks	7,970,187	7,922,518	31,329	-	16,340	-	-
Customers' deposits	43,396,851	37,048,041	2,462,020	2,996,099	192,906	27,449	670,336
Short and medium term borrowings	16,610,194	284,836	102,318	628,994	944,187	12,084,363	2,565,496
Other liabilities	2,386,968	2,386,968	-	-	-	-	-
Equity	10,724,178	-	-	-	-	-	10,724,178
<b>Total liabilities and equity</b>	<b>81,088,378</b>	<b>47,642,363</b>	<b>2,595,667</b>	<b>3,625,093</b>	<b>1,153,433</b>	<b>12,111,812</b>	<b>13,960,010</b>

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

### 30 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2005 was as follows:

	Total	Less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	3 years to less than 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Assets</b>							
Cash and balances with Central Banks	1,702,321	1,702,321	-	-	-	-	-
Deposits and balances due from banks	9,989,250	9,220,373	-	768,877	-	-	-
Trading investments	392,836	392,836	-	-	-	-	-
Loans and advances, net	42,164,061	17,685,845	2,297,669	4,458,125	3,644,743	3,681,908	10,395,771
Non trading investments	1,771,454	349,443	33,144	20,807	249,068	333,258	785,734
Other assets	1,302,200	1,249,810	9,701	-	20,573	22,116	-
Property, plant and equipment, net	403,192	-	-	-	-	-	403,192
<b>Total assets</b>	<b>57,725,314</b>	<b>30,600,628</b>	<b>2,340,514</b>	<b>5,247,809</b>	<b>3,914,384</b>	<b>4,037,282</b>	<b>11,584,697</b>
<b>Liabilities and Equity</b>							
Due to banks	6,049,451	4,903,418	284,295	411,983	433,414	16,341	-
Customers' deposits	33,937,379	25,304,342	3,198,412	4,096,556	1,220,498	66,181	51,390
Short and medium term borrowings	7,749,484	-	46,812	558,687	18,365	146,920	6,978,700
Other liabilities	1,370,587	1,370,587	-	-	-	-	-
Equity	8,618,413	-	-	-	-	-	8,618,413
<b>Total liabilities and equity</b>	<b>57,725,314</b>	<b>31,578,347</b>	<b>3,529,519</b>	<b>5,067,226</b>	<b>1,672,277</b>	<b>229,442</b>	<b>15,648,503</b>

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



### 31 Market price risk

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

### 32 Fair value of financial instruments

While the Bank prepares its consolidated financial statements under the historical cost convention modified for measurement to fair value of trading and available for sale investment securities and derivatives, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of majority deposits, medium term borrowings and performing loans and advances are frequently repriced. For non-performing loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the flows.

The fair value of held to maturity investments are disclosed in note 8.

### 33 Capital adequacy and capital management

The objective of the Bank is to have an adequate capital base to support its business growth. The Bank limits its exposure to risk weighted assets based on capital base calculated as stipulated by UAE Central Bank. The capital adequacy ratio calculated in accordance with the guidelines of the United Arab Emirates Central Bank is as follows:

	2006 AED'000	2005 AED'000
<b>Capital base</b>	<b>12,193,378</b>	8,608,930
<b>Risk weighted assets:</b>		
Balance sheet assets	65,815,021	39,610,064
Off-balance sheet exposures	9,103,657	6,303,208
<b>Total risk weighted assets</b>	<b>74,918,678</b>	45,913,272
<b>Capital adequacy ratio</b>	<b>16.28%</b>	18.75%

The capital adequacy ratio was above the minimum requirement of 10% stipulated by UAE Central Bank as of December 31, 2005 and 2006.

Capital base at December 31, 2006 as shown above includes subordinated floating rate note balance of AED 1,469,200 thousand (note 12).

### 34 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 61,956 thousand (2005: AED 102,481 thousand) held in India are subject to the exchange control regulations of India.

### 35 Trust activities

As of December 31, 2006, the funds under the management of the Bank amounted to AED 1,194,578 thousand (2005 – AED 3,044,912 thousand).

### 36 Comparative figures

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

### 37 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 21, 2007.



## HEAD OFFICE

**Eirvin Knox**  
Chief Executive Officer

**Ala'a Eraiqat**  
Head, UAE Banking

**Steven Dickens**  
Chief Operations Officer

**Darren Robinson**  
Chief Financial Officer

**Seumas Gallacher**  
Head, Investment Banking

**Zaki Hamadani**  
Head, Legal and Special Assets Management

**Sultan Al Mahmoud**  
Head, Human Resources Group

**Yaser Mansour**  
Board Secretary  
Head, Corporate Communications

**Abdirizak Ali**  
Head, Internal Audit Department

**Alok Kakar**  
Head, Corporate Finance Division

**Robert Neville Price**  
Head, Credit

**Neil Anthony Sharp**  
Head, Treasury Investments

## HEAD OFFICE

ADCB, New Head Quarters, Al Salam street, P.O. Box 939, Abu Dhabi, UAE  
 Reuter Dealing: ADCU, Reuter Commentary: ADCB 01  
 Telephone: 971 (2) 6962222 - PABX

## BRANCHES AND ADDRESSES IN THE UAE

ABU DHABI EMIRATE	P.O. Box	TELEPHONE	TELEFAX
Salam	2934	(02) 6962222	(02) 6109772
Corniche	2054	(02) 6275500	(02) 6960450
Hamdan Street	2832	(02) 6335820	(02) 6340680
Tourist Club Area	2800	(02) 6442800	(02) 6109712
Sh. Rashid Road	25993	(02) 4458288	(02) 4432491
Khalidiya	29923	(02) 6669910	(02) 6650227
Al Murroor	939	(02) 4447960	(02) 4444795
GHQ	25994	(02) 4415626	(02) 4415800
Al Falah	5154	(02) 6213901	(02) 6109720
Mussafah	9331	(02) 5544272	(02) 5544273
Al Shahama	76122	(02) 5632255	(02) 5630035
Baniyas Town	11616	(02) 5821550	(02) 5823529
Al Dhafra Air Base	11616	(02) 5851030	(02) 5851045
Zayed Town	50013	(02) 8846180	(02) 8847663
Ruwais	11851	(02) 8775015	(02) 8774704
Al Bayah	76889	(02) 8721300	(02) 8728124
Gayathi	77731	(02) 8742155	(02) 8741626
ICAD	39260	(02) 5500724	(02) 5500739
GASCO	48332	(02) 6772362	(02) 6109797

## BRANCHES AND ADDRESSES IN THE UAE

<b>AL AIN</b>	P.O. Box	TELEPHONE	TELEFAX
Main Branch	15180	(03) 7550000	(02) 6109775
Khalifa Street	1820	(03) 7669999	(02) 6109739
Sina'eya (Industrial Area)	24699	(03) 7210009	(03) 7216193
Al Wagan	21879	(03) 7351444	(03) 7351799
Al Yahar	81084	(03) 7814000	(03) 7826600
Al Hayer	21112	(03) 7321888	(03) 7322883

**DUBAI EMIRATE**

Al Riggah Road	5550	(04) 2958888	(04) 2956632
Al Karama	12808	(04) 3345000	(04) 3348000
Deira	1069	(04) 6024100	(04) 6109790
Al Mina Road	9286	(04) 3984444	(04) 3982725
Etihad	37363	(04) 3615151	(02) 6109735
Al Qusais	19678	(04) 2634440	(04) 2633282
Mall of the Emirates	72225	(04) 3411001	(02) 6109732
Jumeirah	214031	(04) 4069600	(02) 6109749

**SHARJAH EMIRATE**

Main Branch	4377	(06) 5737000	(06) 5722322
Industrial Area	23657	(06) 5433300	(06) 5421285
Buhaira	66655	(06) 5566169	(02) 6109731

**RAS AL KHAIMAH EMIRATE**

Ras Al Khaimah	1633	(07) 2332200	(07) 2330706
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**FUJAIRAH EMIRATE**

<b>FUJAIRAH EMIRATE</b>	P.O. Box	TELEPHONE	TELEFAX
Fujairah	770	(09) 2223900	(09) 2224900
Dibba	13212	(09) 2446444	(09) 2444838

**AJMAN EMIRATE**

Ajman	1843	(06) 7443444	(06) 7443300
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**OVERSEAS BRANCHES - INDIA**

Mumbai	11248	(91) 2222855658	(91) 2222870686
Bangalore		(91) 80 25582000	(91) 80 25582323

A modern office interior featuring glass partitions, a red chair, and a white desk. The ceiling has recessed lighting. In the background, a sign for ADCB is visible.

Our Vision. Your Future.