بنك أبوظبي التجاري

ADCB

Abu Dhabi Commercial Bank

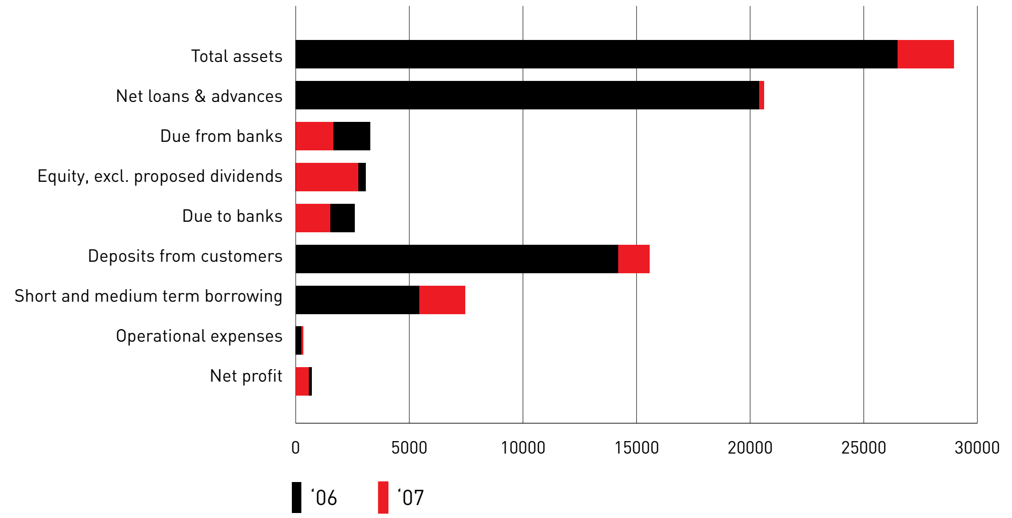
Annual Report 2007

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

Corporate governance **[SERVICE]**

Our business model enables us to create future value for our shareholders. We have gained a strong market share by delivering diversified value for money products and excellent service to our customers.



Financial Highlights

	2007	2006
Total assets	28,917	22,077
Net loans & advances	20,603	16,996
Due from banks	1,642	2,740
Equity, excl. proposed dividends	2,747	2,573
Due to banks	1,524	2,170
Deposits from customers	15,562	11,815
Short and medium term borrowing	7,452	4,522
Capital / assets ratio	11%	13%
Capital / loans ratio	15%	17%
Operational expenses	275	205
Net profit	568	585

All figures in USD millions

Profile

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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H.E. Saeed Mubarak Rashed Al Hajeri

- Bachelor in Business Administration (Lewis and Clark College, USA)
- Executive Education Programme (Harvard Business School)
- Chartered Financial Analyst (CFA Institute)

H. E. Saeed Al Hajeri was appointed by ADIA to join the Bank's Board of Directors in July 2001 and became the Bank's Chairman in October 2004. In 2007 he was elected by the World Economic Forum as one of the top 250 Young Global Leaders for his contribution to the public and financial sectors in the UAE.

External appointments

- Board Member – ADIA
- Executive Director – Emerging Markets Department, ADIA
- Board Member – Emirates Telecommunications Corporation
- Board Member – Higher Corporation for Specialised Economic Zones
- Board Member – Dubai Cable Company
- Board Member – Arab Banking Corporation

Mr. Mohamed Darwish Al Khouri

- Bachelor in Business Administration (Siena Heights College, Michigan)

Mr. Al Khouri has more than nineteen years of experience as an investment professional. He oversees ADIA's Internal Equities Department. In May 2004 he was nominated by ADIA to join the Bank's Board of Directors and he was subsequently, in April 2006, elected by the Bank's shareholders to act as an independent Director. In 2005 he moved to the Emerging Markets Department of ADIA as a Deputy Director. In January 2008 he was appointed as Executive Director of ADIA's Internal Equities Department.

External appointments

- Executive Director - Internal Equities Department, ADIA
- Board Member – National Marine Dredging Company
- Board Member – Al Benaa Property Investment Company

H.E. Rashid Humaid Al Mazroei

- Diploma in Banking & Administration

Mr. Al Mazroei was appointed by the Executive Council to join the Bank's first Board of Directors in 1985. He was subsequently elected by the Bank's shareholders to act as an independent Director.

External appointments

- Chairman & Managing Director - Bahri & Mazroei Group
- Board Member - Dubai Chamber of Commerce & Industry
- Board Member - Federation of U.A.E. Chamber of Commerce & Industry
- Board Member - Dubai Council for Economic Affairs, Govt. of Dubai

H.E. Aamer Abdul Jalil Al Fahim

- Master of Business Administration (Banking and Finance, University of Hull – UK)

Mr. Al Fahim was elected by the Bank's shareholders to join the Board of Directors in April 2003.

External appointments

- Executive Director – Al Fahim Group
- Member – Federal National Council, UAE
- Chairman – Aradi Properties P.J.S.C.
- Board Member – Abu Dhabi Chamber of Commerce & Industry
- Board Member – Al Wathba Insurance Company
- Board Member – Al Qudra Holdings
- Board Member – Al Safwa Islamic Financial Services
- Board Member – International Investment Bank, Bahrain
- Member of Honorary Board & President of Marketing Committee – Al Ain Sports & Cultural Club
- Member of Executive Committee – Damas LLC

Mr. Abdulla Khalil Al Mutawa

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

Mr. Al Mutwa is a specialized investment professional with more than 20 years' experience in finance and administration. He was elected by the Bank's shareholders to join the Board of Directors in March 1997.

External appointments

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

H.E. Jean-Paul Pierre Villain

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

After a brief period as an Assistant Professor in Finance at a Parisian University, Mr. Villain joined Banque Paribas in 1971. He progressed from Portfolio Manager to Head of Investments in the asset management department. In 1982 Mr. Villain joined ADIA as Regional Manager for Europe before being appointed Senior Fund Manager for all financial assets. He returned to Paribas in 1987 to become the first Chief Executive and Chief Investment Officer of Paribas Asset Management. He was appointed by ADIA to join the Bank's Board of Directors in May 2004. In 2007 he was appointed "Chevalier de la Legion d'Honneur" by the President of France.

External appointments

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

H.E. Mohamed Sultan Abdulla Ghanoom Al Hameli

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

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

External appointments

- Board Member – Abu Dhabi Development Fund
- Board Member – Abu Dhabi Airport Company
- Assistant Undersecretary of the Finance Dept of the Government of Abu Dhabi.

Mr. Mohammed Ali Al Dhaheri

- Bachelor of Business Administration (International University of America)

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

External appointments

- Accounting & Financial Services- Abu Dhabi Investment Council

- Board Member – Abu Dhabi Investment Company

Mr. Salem Mohammed Athaith Al Ameri

- BS Business Management Degree (Colorado Technical University, Colorado Springs, Co, USA)

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

External appointments

- Private Equity Department Executive Director – Abu Dhabi Investment Council
- Chairman – Airport International Group (developer & operator of Queen Alia International Airport, Amman, Jordan)
- Board Member – Abu Dhabi Investment Company

Chairman's Report

To our shareholders

On behalf of the Board of Directors and Management, I am pleased to present ADCB's Annual Report for the year ending 31 December 2007 reflecting a net profit of AED 2.085 billion. I also take pleasure to announce that Board of Directors recommended distribution of dividends equivalent to 30.25% of the Bank's capital, payable AED 400 million in cash and AED 810 million in bonus shares.

In 2007 the Bank continued to make sound investments into all business lines and preserved its culture of discipline and prudence. Every business line performed well and the Bank's revenue bases grew in a balanced manner.

The Bank maintained its focussed and clear strategy, preserved its market leading franchise and continued to deliver excellent service to customers.

The Bank remains committed to achieving international best practice standards throughout its activities. In particular, the Bank seeks to observe the highest ethical principals in its business activities including accountability, transparency, fairness and responsibility.

To further this commitment, in 2007 the Bank launched initiatives to implement and improve corporate governance across the Bank. The Bank is confident that these initiatives will create further value for shareholders, protect the interests of stakeholders and improve the Bank's ability to respond to business opportunities.

Harnessing human talent remains of critical importance to the Bank's success; a number of initiatives were introduced in 2007 to enhance our employee productivity and development. Special attention was also given to attracting, training and retaining high calibre UAE Nationals across all levels of the Bank. Our efforts in this field were recognized by the 2007 HRD Banking Sector award from Emirates Institute for Banking Studies.

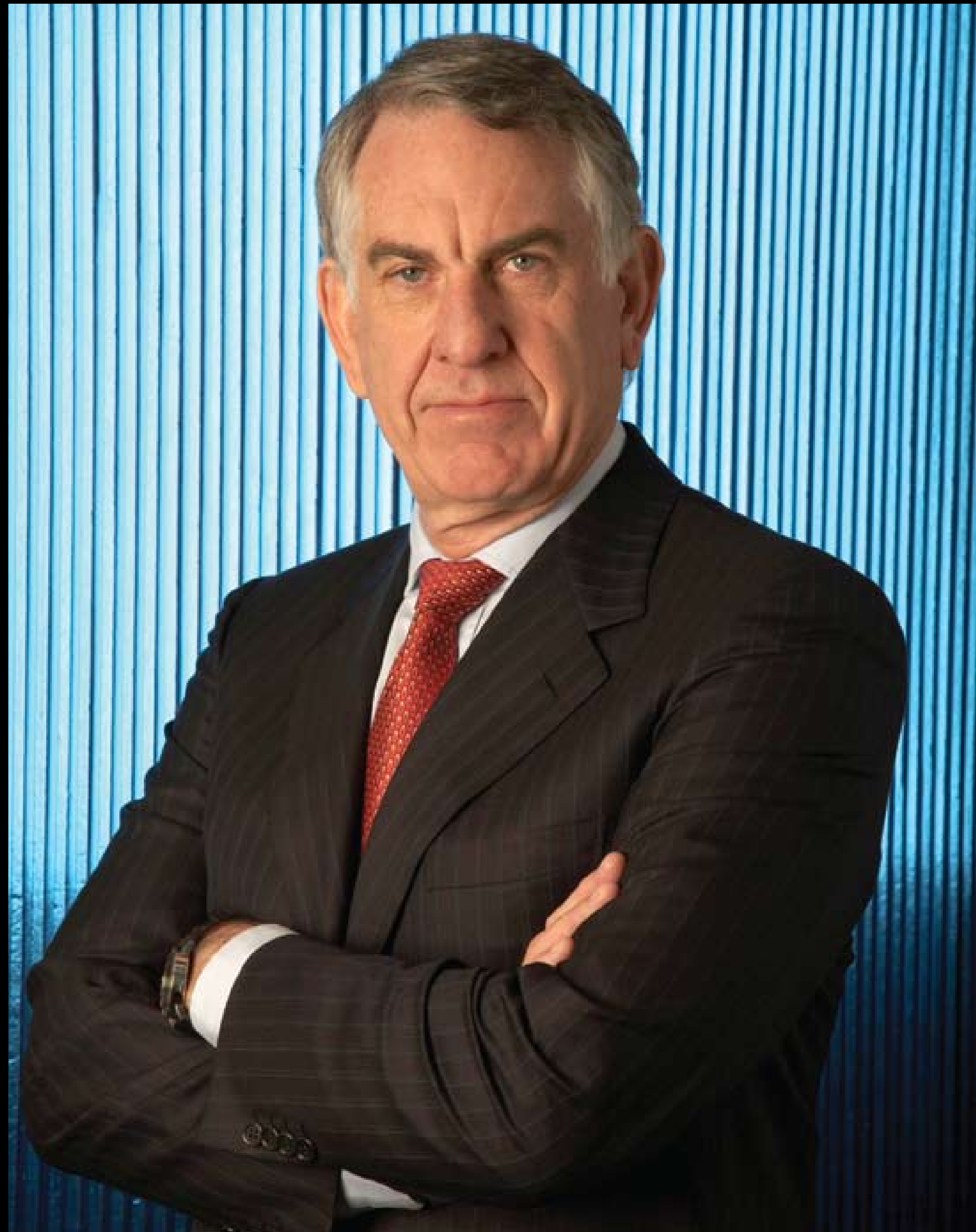
On behalf of the Board of Directors and the Executive Management team, I would like to express our sincere appreciation and gratitude to our shareholders for their support, our customers for their trust and to our staff for their loyalty and dedication.

Saeed Mubarak Rashed Al Hajeri
Chairman of the Board

Corporate governance

Systems and principles by which a corporation is guided and controlled.

CEO's Report



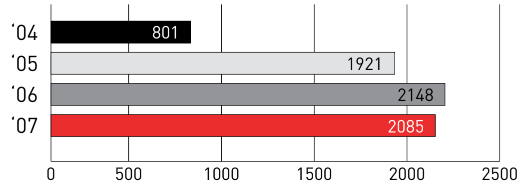
Eirvin Knox
Chief Executive Officer

CEO's Report

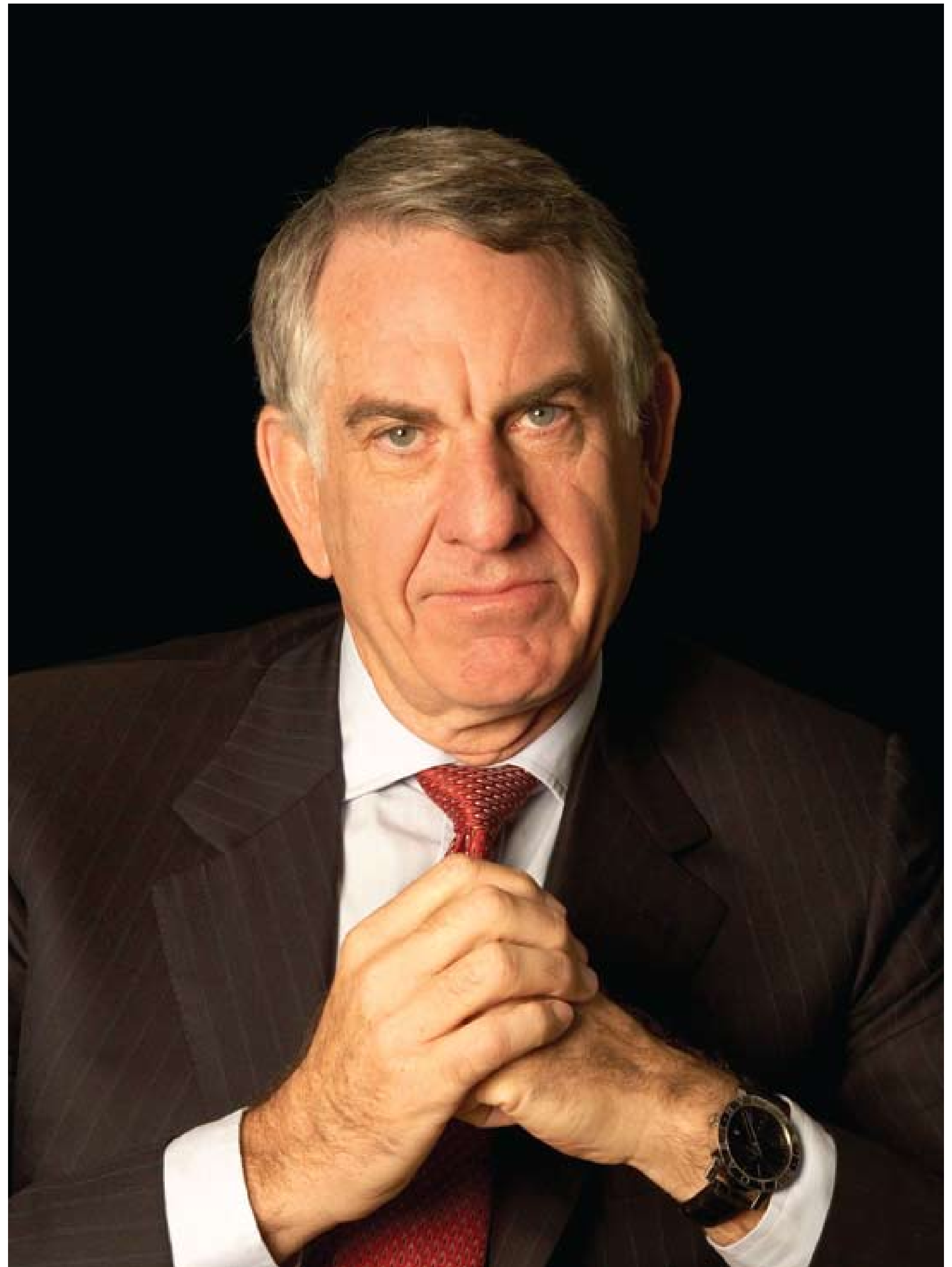
Rewarded for Excellence

In 2007 ADCB achieved many significant milestones and awards. In particular, the Bank received local and regional awards for its outstanding role in the UAE's banking industry, quality of service and product delivery. The awards confirmed ADCB's standing as a leading UAE bank:

- "Best Bank in the UAE 2007" - Euromoney Magazine
- "Bank of the Year" - CEO Middle East Awards
- "Excellence in Retail Banking Strategy" - Asian Banker
- "Best Advertising/Marketing Campaign" - Banker Middle East Industry Awards
- "JPMorgan Chase Quality Recognition Award"
- "Sea-Trade Award" for ship finance - Seatrade Middle East & Indian Subcontinent Awards
- "Gold Category" for submission of financial statements - Emirates Securities and Commodities Authority
- "Diamond Sponsor Award" - Emirates Foundation



Net profit
All figures in AED million



Customer Satisfaction Surveys

- Overall customer satisfaction remains very high.
- A high percentage of respondents indicated that they will recommend ADCB to others.
- 87% of respondents use, and will continue to use, ADCB as their primary bank.
- 75% of respondents noticed an improvement in customer service at branches.
- Branch customer satisfaction remains very high: 82%.
- More than 77% of respondents find customer service officers friendly and helpful.
- Very high satisfaction with internet banking, ATM banking and coverage, mobile banking and the 24/7 Contact Centre:
  - ADCB @ctive: 91%
  - ATM Banking: 85%
  - ATM Network Coverage: 78%
  - Contact Centre: 80%
  - Mobile Banking Services: 80%

CEO's Report

Highly Motivated Employees

During 2007, ADCB participated in the International Employee Engagement Benchmarking Study undertaken by the USA Conference Board. Key findings were as follows:

- Employee engagement is consistent with levels found at well-managed multi-nationals.
- ADCB's employees share values with the Bank and are satisfied with the opportunities (for personal and career growth) made available to them by the Bank.
- ADCB is committed to workforce diversity, training and engagement.

ADCB Annual Report 2007 | CEO's Report

AED 1,987,518	Net profits (excludes minority interests)
AED 873,960	Fees and commissions
AED 106,213,849	Total assets at end of 2007
AED 57,160,820	Deposits at year-end
AED 27,370,264	Total short and medium term borrowings

All figures in AED thousands

Business Banking

- Reorganisation aimed at improving service levels and customer relations.
- Enhanced processes and product offerings.
- Market focus yielded significant growth in asset book and deposits.
- NPL reduction of 1.38%.
- Increased focus on trade finance business.
- Corporate banking:
    - 25% growth in revenues and 33% growth in profits.
    - 22 transactions worth more than AED100m.
    - 9 transactions worth more than AED500m.
    - 228% increase in internet fund transfer transactions.
- SME: 38% growth in revenues and 51% growth in profits.
- Commercial mortgage scheme performed well: 21 listed developers and growing market share.
- 75% increase in cash management customers.
- 65% increase in ADCB@ctive Internet Banking customers.

CEO's Report

Retail Banking

- Strong growth across all products and services.
- Market leading product innovations.
- 39 branches and 115 ATMs across the UAE. 2 branches in India.
- Touchpoints: Launch of ADCB TouchPoints, UAE's biggest Customer Loyalty programme.
- **Mortgages:**
  - Leading mortgage provider amongst UAE banks.
  - Preferred bank for all leading UAE real estate developers.
  - Mortgage portfolio grew by 379%.
  - Customer base grew by 228%.
- **Personal loans:**
  - One of the largest portfolios in the UAE.
  - Focus on risk based pricing and acquisition quality.
- **Auto loans:**
  - One of the largest portfolios in UAE.
  - Strategic partnerships with most major car dealerships.
  - Auto loan portfolio grew by 42%.
- **Smart loans:**
  - Retailer partnerships extended, including names such as Carrefour, Homes r Us and E Max.
  - Smart loans portfolio grew by 352%.
  - Customer base grew by 282%.
- **Credit card:**
  - Portfolio grew almost 50% faster than market.
  - Customer centric innovations, including rewards programs and the first Contactless Card in the region (the ADCB Flash Credit Card powered by PayPassTM technology from MasterCard).
  - 80% growth in customer acquisition.
  - Credit card portfolio grew by 72%.
- **Deposits:**
  - Launch of new and innovative products and promotions including Balance Transfer on current account, Million Dollar Dreams III and the Interest Plus fixed deposit programmes.
  - Liability book increased by 30%.
  - All in One current account book increased by 90%.
  - Fixed Deposit book increased by 40%.
  - Customer base increased by 40%.
- **Internet and mobile banking:**
  - Record number of customers signed up for the ADCB@ctive and mobile banking services.
  - ADCB@ctive customer registrations increased by 105%.

Private Banking & Wealth Management

- 500 new Excellency customers and 2,600 in total.
- 6 Excellency Centers across the UAE.
- Introduced Excellency Mortgages, Protector Plus insurance, Wallet Guard and other innovative products.
- Campaigns yielded AED 513.0 million in assets under management.
- Exclusive client events across the UAE, including the Scintilla Excellency gala during which the winner of the Excellency Fixed Deposit draw was announced. The winner received a diamond necklace worth USD 250,000.00.
- Successfully launched the ADCB MSCI UAE Index Fund, which amassed assets under management of AED 139.46 million and achieved a net return of 42.1%, equivalent to a compound annual growth rate of 62.3%.
- Increased Bancassurance direct sales by 600%.
- Protector Plus insurance acquired 9,000 customers over 11 months.

CEO's Report

Al Dhabi Brokerage

- Traded value of AED25 billion in the DFM and ADSM.
- Shares worth more than AED 23 billion under ADB's custody.
- Brokerage channels completed:
  - Abu Dhabi Head Office Trading Floor
  - Dubai Trading Floor
  - Al Ain Trading Floor
  - Internet Trading
  - Contact Centre (800-DEALDFM/ADSM)
- 6,588 DFM/ADSM accounts and revenue of AED 38 million.
- 5,247 DIFX accounts.

Corporate Finance

In 2007 ADCB expanded its corporate finance by:

- **Diversification**
  - Identified geographies for organic and inorganic expansion.
  - Built India debt book through infrastructure, acquisition financing and asset based lending.
  - Analysis of new business lines.
- **Strategic transactions**
  - Seeking a bank license in Oman.
  - Investment in a growing GCC focussed financial services company.
  - AED 100 million investment in the development of a luxury villa complex in Dubai.
  - Investment in a mixed use real estate development at Abu Dhabi's Capital Centre.
- **Investment management**
  - Proprietary investments in ZonesCorp Infrastructure Fund (ZIF) and ADCB-Macquarie Infrastructure (AMIF) Fund.
  - Managing the Financial Support Fund for Farm Owners in Abu Dhabi (FSFFO).

Treasury and Investments

- Highly professional customer focused business offering structured solutions in interest rates, commodities and foreign exchange.
- Expertise and systems to price, structure and manage books locally.
- Bespoke risk management solutions for clients.
- Strong FX franchise and regional presence.
- Signed a $1.5 billion syndicated loan.
- Issued AED bonds worth AED 3.5 billion.
- International capital market issuances exceeded US$ 500 million.
- Issuances in several currencies including South African Rand, New Zealand Dollar and Slovak Koruna.
- Increased ECP programme from US$ 2 billion to US$ 4 billion.
- Dislocation of international capital markets enabled ADCB to grow local deposits by 30%.
- Strong liquidity ratio of 20%.
- ADCB and Kuwait Finance and Investment Company signed an MOU to jointly establish and launch a private equity fund with a target size of $155 million.

CEO's Report

Operations and Technology

During 2007, ADCB achieved significant milestones in upgrading its IT and data security:

- Innovative use of technology
- Continuous investment in the skills and knowledge of ADCB personnel.
- First financial institution in the region to adopt Microsoft Windows Server 2008.

Empowering the Citizen

- Implemented numerous initiatives (including career days) to attract, train and develop UAE Nationals.
- Reserved 20% of vacancies for UAE Nationals.
- Recruited 39 UAE National graduates.
- Successfully increased the number of UAE Nationals being trained within the bank from 77% to 90%.
- Successful Emiritization programme – 31 Nationals in executive positions and 43 in managerial positions.

Corporate Social Responsibility and Sponsorships

During 2007, the Bank sponsored and supported several social, educational, cultural and charitable events.

- Chair in International Business in the INSEAD Center for Executive Education and Research.
- The Leadership Excellence Applied Diploma Programme, organized by ALDAR Properties PJSC.
- The Endowment Campaign launched by the Authority of Islamic Affairs and Endowments.
- The Environment 2007 Conference & Exhibition held under the patronage of President H. H Sheikh Khalifa Bin Zayed Al Nahyan.
- The Annual Abu Dhabi Real Estate and Investment Show under the patronage of H.H. Dr. Sheikh Sultan Bin Khalifa Bin Zayed Al Nahyan.
- The 2nd Ideas Arabia International Conference.
- The 4th Conference of the Council of Islamic Financial Services.
- The 2007 ArtParis-Abu Dhabi art fair under the patronage of H. H. Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces.
- First European Emirates Exhibition of Equipments for Special Needs People Rehabilitation and First Special Needs Mass Wedding.
- Donation of AED 1 million to the Red Crescent Authority to support humanitarian causes.

Corporate Governance

Corporate governance **[FAIRNESS/TRANSPARENCY/RESPONSIBILITY/ACCOUNTABILITY]**

We have long been known for promoting corporate fairness, transparency, responsibility and accountability. Now these are the guiding principles of our corporate governance initiatives.

- ADCB's approach to corporate governance
- Compliance with the Emirates Securities & Commodities Authority Corporate Governance Code
- Enhancement of ADCB's corporate governance
- Board of Directors
- Board Committees
- Board membership and attendance
- Directors' remuneration and interests in the Bank's shares

Excellence in Corporate Governance

ADCB's approach to corporate governance

ADCB recognises the high standards of corporate governance required by the markets in which it operates. ADCB is committed to achieving excellence in corporate governance to:

- create additional value for ADCB's shareholders,
- protect the interests of ADCB's stakeholders, and
- improve ADCB's ability to respond to opportunities and serve its clients.

Compliance with the Emirates Securities & Commodities Authority Corporate Governance Code

Article 8 of Chairperson Decision No. (r/32) of the year 2007 on Corporate Governance Code for Joint-Stock Companies and Institutional Discipline Criteria, imposes annual reporting requirements in the format of a corporate governance report. These requirements will become mandatory as of 2010.

Enhancement of ADCB's corporate governance

Strategy and action plan

During 2007, ADCB commissioned International Finance Corporation, a member of the World Bank Group, to conduct a performance evaluation of ADCB's Board of Directors, review ADCB's standards of corporate governance and initiate a comprehensive strategy and action plan aimed at:

- strengthening the Board's oversight of ADCB's activities;
- establishing efficient and effective board committees;
- ensuring that good working procedures and controls apply throughout ADCB;
- formalising ADCB's processes for identification and selection of Directors;
- strengthening management's control and operation of business activities; and
- reinforcing shareholders' rights, in particular through improving ADCB's disclosures.

Implementation plan

During 2007, ADCB, working with International Finance Corporation, produced a corporate governance strategy and implementation plan. According to the plan, which will be fully implemented by 2010 but substantially implemented during 2008, ADCB will, amongst other things:

- review the composition of the Board, the processes for election of Directors and the remuneration of Directors;
- reorganise all board committees.

After the reorganisation, the following committees will exist:

Audit Committee

The responsibilities of ADCB's existing Audit Committee will be extended. From 2008, in addition to carrying out its existing tasks (listed below), the Audit Committee will review all related party transactions, structure whistle blowing procedures and implement the highest ethical standards.

Nomination, Follow Up & Remuneration Committee

The Nomination, Follow Up & Remuneration Committee will review the composition of the Board, identify and filter candidate Directors, ensure that independent Directors maintain their independence, implement formal structures to review Directors' skills requirements and recruitment practices, recommend and annually review remuneration for Directors, senior executives and other staff (including long term incentive schemes), develop, apply and review human resources and training policies, determine ADCB's requirements for executive managers and employees, and the basis for choosing them, and prepare briefing documents, orientation and training sessions for new and existing Directors.

Corporate Governance Committee

The Corporate Governance Committee will oversee the development and implementation of ADCB's corporate governance strategy and action plan.

Risk Committee

The Risk Committee will develop and supervise ADCB's risk measurement processes, risk limits and controls, and disclosures of risk information and data.

Asset Management Committee

The Asset Management Committee will consider and advise on ADCB's existing and future asset management.

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

Corporate Governance

Board of Directors

Appointments

As at 31 December 2007, pursuant to ADCB's Articles of Association ("Articles"), the management of ADCB is vested in the Board which comprises nine Directors the majority of whom must be UAE nationals. The Abu Dhabi Investment Council (the "Council"), in its capacity as the representative of the Government of Abu Dhabi, has the right to appoint a maximum of five Directors. Those Directors not appointed by the Council are elected by shareholders.

Under the Articles, a Director may hold office for a term of three years following which they must resign but shall be eligible for re-election on each such occasion.

Board vacancies arising during the course of a year may be filled by the Board, providing that such appointment is presented to the shareholders for confirmation or replacement at the first ordinary general assembly meeting thereafter. The Council is entitled to appoint a substitute for any of its Directors at any time. Directors appointed in either circumstance shall complete the term of their predecessor.

The Bank's Chairman is elected by the Board from among those Directors appointed by the Council. A Vice-Chairman may be elected. Both the Chairman and the Vice-Chairman must be a UAE national.

Powers & responsibilities

The Board is responsible for the overall management and strategy of the Bank.

In particular, the Board appoints the Bank's CEO and determines his remuneration and powers and is specifically authorised to regulate the organisation and management of ADCB's operations. The Board is entitled to delegate any of its powers to the Executive Committee or to any other committee consisting of two or more Directors.

The Board is responsible for various administrative and reporting obligations in respect of company documents, general meetings, accounts, appointment of auditors and maintenance of company registers. Further details of these functions are expressly incorporated in ADCB's Articles.

All Directors are liable to ADCB, its shareholders and third parties for any acts of fraud, power abuse, violation of law, violation of its Articles or mismanagement. Further provisions governing Directors' conduct can be found in UAE Law No. 18 of 1993 (known as the "Commercial Code") and the UAE Code of Commercial Practice and UAE Law No. 3 of 1987 (known as the "Penal Code").

Board Committees

Audit Committee

The Audit Committee is responsible for relations with and supervision of the Bank's external auditors. The Audit Committee also: Oversees the Bank's internal audit processes and department, is responsible for ensuring that ADCB has a comprehensive policy on Risk Management, which includes policies and procedures in respect of credit, market, country, operations, liquidity, interest rate, legal and reputation-related risks; and reviews ADCB's compliance policies and their implementation, as well as the effectiveness of the Bank's compliance monitoring systems.

The Audit Committee holds a minimum of four meetings per year. It provides periodic updates and reports on audit and compliance issues to the Board.

Compensation Committee

The Compensation Committee conducts periodic reviews of remuneration levels and makes recommendations on the basis of annual results, budgets and individual performance in respect of senior management, the Board and Board Committees. It reviews ADCB's incentive and equity-based compensation plans as necessary and oversees the grant of awards to eligible employees. It engages compensation and benefits consultants and other outside consultants to provide independent advice as required.

The Compensation Committee meets bi-annually with special meetings called as necessary and prepares an annual report. A self- evaluation of performance is conducted on an annual basis.

Executive Committee

The Executive Committee has a number of responsibilities in relation to the Bank's credit risks. It issues internal regulatory directives relating to changes in ADCB's lending policy, approves ADCB's credit policies, credit procedures manual and credit risk strategies and reviews portfolio summary reports. In addition the Executive Committee considers certain Bank-wide strategy proposals before they are submitted to the Board for approval. The Executive Committee has authority to approve credit commitments on behalf of ADCB up to a value of 7% of ADCB's capital.

The Executive Committee meets weekly.

Human Resources Committee

The Human Resources Committee oversees ADCB's human resources function including recruitment, selection and training policies. It conducts periodic reviews of ADCB's policies on expenses, reimbursement, incentive and equity based compensation plans resignation and termination. It makes recommendations in respect of senior management remuneration.

The Human Resources Committee reports and makes recommendations to the Board on all relevant matters, including by way of preparation and presentation of a bi-annual report. Meetings are held four times per year. It performs a self-evaluation of its performance on an annual basis.

Recoveries Committee

The Recoveries Committee monitors ADCB's portfolio of non performing loans with the objective of reducing non-performing levels. It has the authority to approve restructuring and settlements up to a limit of AED 250 million, write-offs up to AED 25 million, and provisioning policies for all operating areas of ADCB including Corporate, Commercial and Retail banking sectors. The Recoveries Committee is entitled to delegate authority to approve settlement arrangements or write-offs to sub-committees or management teams headed by the CEO up to a pre-approved limit.

During 2007, the Recoveries Committee met 4 times and adjudicated 67 proposals involving amounts aggregating to AED 1,312.31 million. The status of certain large non performing loans were reviewed and appropriate instructions and guidelines passed on to relevant ADCB divisions.

Al Nokhitha Advisory Committee

The main objective of the Al Nokhitha Committee is to supervise the operations and the investment strategy of the Al Nokhitha fund.

The fund manager provides feedback on performance and strategy at presentations held on a monthly and quarterly basis. Periodic committee meetings are held at which recommendations for operations and investment strategies are made. These recommendations are actioned by the fund manager as necessary.

Corporate Governance

Board membership and attendance*

Name	Status	Board		Executive Committee		Recoveries Committee		Al Nokhitha Advisory Committee		Audit Committee		Human Resources Committee		Compensation Committee	
		Meetings: 9		Meetings: 43		Meetings: 4		Meetings: 5		Meetings: 7		Meetings: 3		Meetings: 4	
Aamer Abdul Jalil Al Fahim	Director[3]	-	7			-	2			-	4				
Abdulla Al Mutawa	Director	-	8	-	40										
Hamad Saeed Al Badi	Director[1,2]	-	3			-	2			-	3	-	1		
Jean Paul Villain	Director[2]	-	9	-	19			-	3					C	4
Michael Carapiet	Director[1,2]	-	2												
Mohammed Ali Al Dhaheri	Director[2,4]	-	6			C	2			-	3				
Mohamed Darwish Al Khouri	Director[3]	-	8							-	5				
Mohd Sultan Al Hameli	Director[2]	-	7	-	35	-	3					C	3	-	3
Rashed Humaid Al Mazroei	Director[3]	-	7							C	6				
Saeed Mubarak Al Hajeri	Director[2]	C	9	C	27			C	4					-	4
Salem Mohd Al Ameri	Director[2,4]	-	6	-	21							-	2		

C	Chairman
-	Member
1	Appointment until 9 May 2007
2	Nominated by Abu Dhabi Investment Council**
3	Independent Director
4	Appointment from 9 May 2007

* Board and board committee meetings were also attended by members of ADCB's management.
** ADIA's controlling shareholding in the Bank was transferred to Abu Dhabi Investment Council on 21 February 2007. Certain Directors who were originally nominated by ADIA subsequently became nominees of Abu Dhabi Investment Council.

Directors remuneration and interests in the Bank's shares

Remuneration policy

Directors' remuneration is set by the Bank's shareholders. The remuneration approved by the Bank's shareholders as at 31 December 2007 is set out below. Any changes will be put to the shareholders for further approval. According to the Bank's Articles of Association, the remuneration of the Board in any year shall not exceed 10% of the net profit of the Bank for the relevant year, after deducting depreciation and reserves and after distributing a profit of not less than 5% of capital to shareholders.

Remuneration

	Directors' fees (AED per annum)	Fees for attendance at each Board committee meeting
Chairman	750,000	5,000
Director	500,000	4,000

As at 31 December 2007, the Bank's Directors were not eligible for any bonus, long term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

Directors' interests in the Bank's shares

Name	Shareholding at 1 January 2007	Shareholding at 31 December 2007	Change in shareholding
Aamer Abdul Jalil Al Fahim	1,601,114	1,601,114	--
Abdulla Al Mutawa	1,951,998	1,951,998	--
Hamad Saeed Al Badi	0	0	--
Jean-Paul Villain	5,000	5,000	--
Michael Carapiet	0	0	--
Mohammed Ali Al Dhaheri	0	0	--
Mohamed Darwish Al Khouri	530,000	530,000	--
Mohd Sultan Al Hameli	0	0	--
Rashed Humaid Al Mazroei	13,436,717	13,436,717	--
Saeed Mubarak Al Hajeri	155,000	155,000	--
Salem Mohd Al Ameri	0	0	--

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

Executive Management

Ala'a Eraiqat
Deputy Chief Executive Officer

Thierry Bardury
Head - Operations & IT

Vijay Kasturi
Head - Financial Planning & Control

Seumas Gallacher
Head- Investment Banking

Zaki Hamadani
Head - legal & Special Assets

Sulatn Al Mahmoud
Head - Human Resources

Abdirizak Ali
Head - Internal Audit

Alok Kakar
Head-Corporate Finance Division

ADCB Annual Report 2007 | Executive Management

Robert Price
Head - Credit

Walter Pompliano
Head - Financial Institution & International Division

Sari A'rar
Head - Business Banking

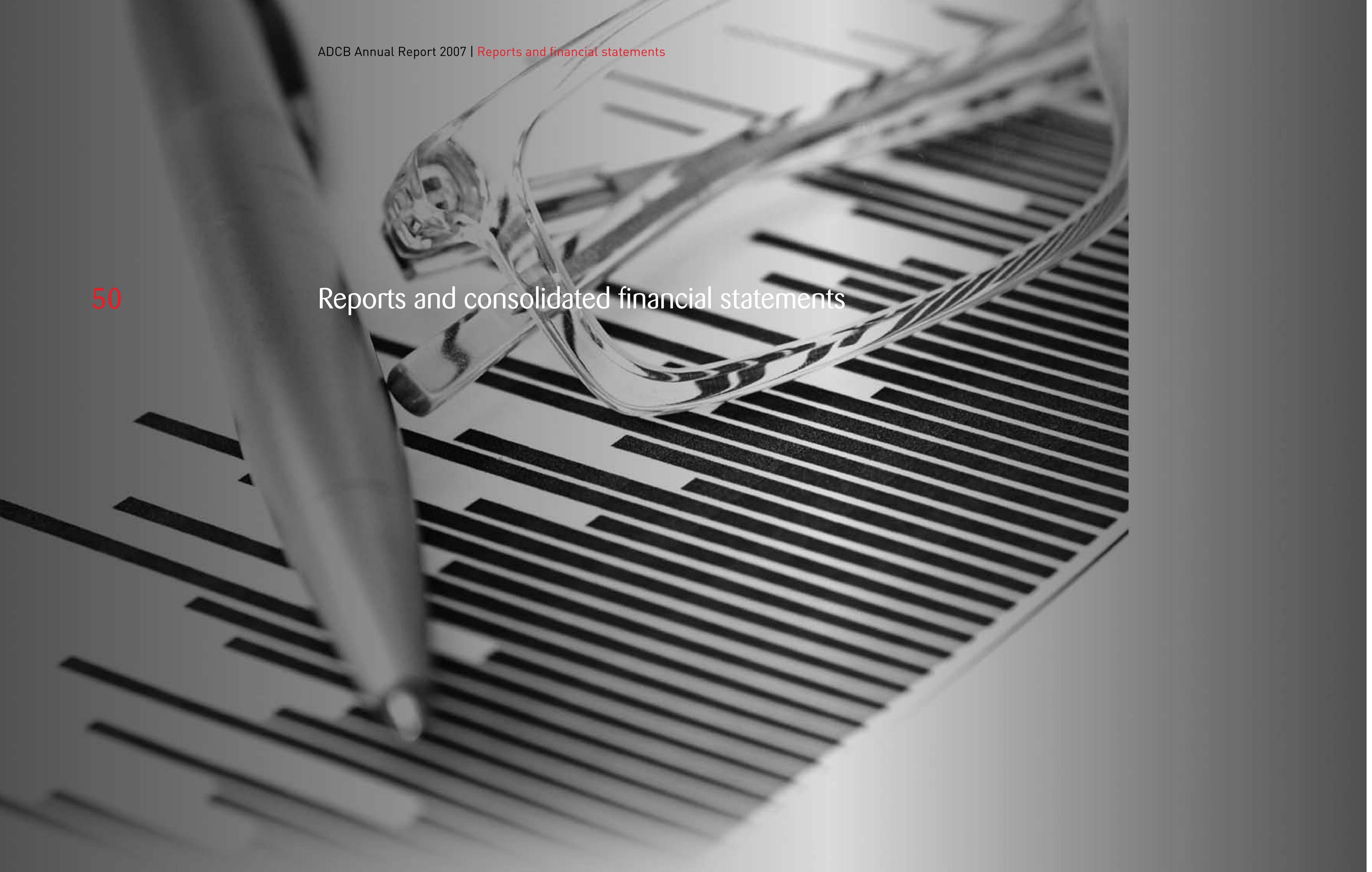
Jasim Al Darmaki
Head - Government Relations

Arup Mukhopadhyay
Head - Retail Banking

Ahmed Barakat
Head - Wealth Management

Yaser Mansour
Head - Corporate Communications
Director of Chairman's Executive Office
Board Secretary

Reports and consolidated financial statements

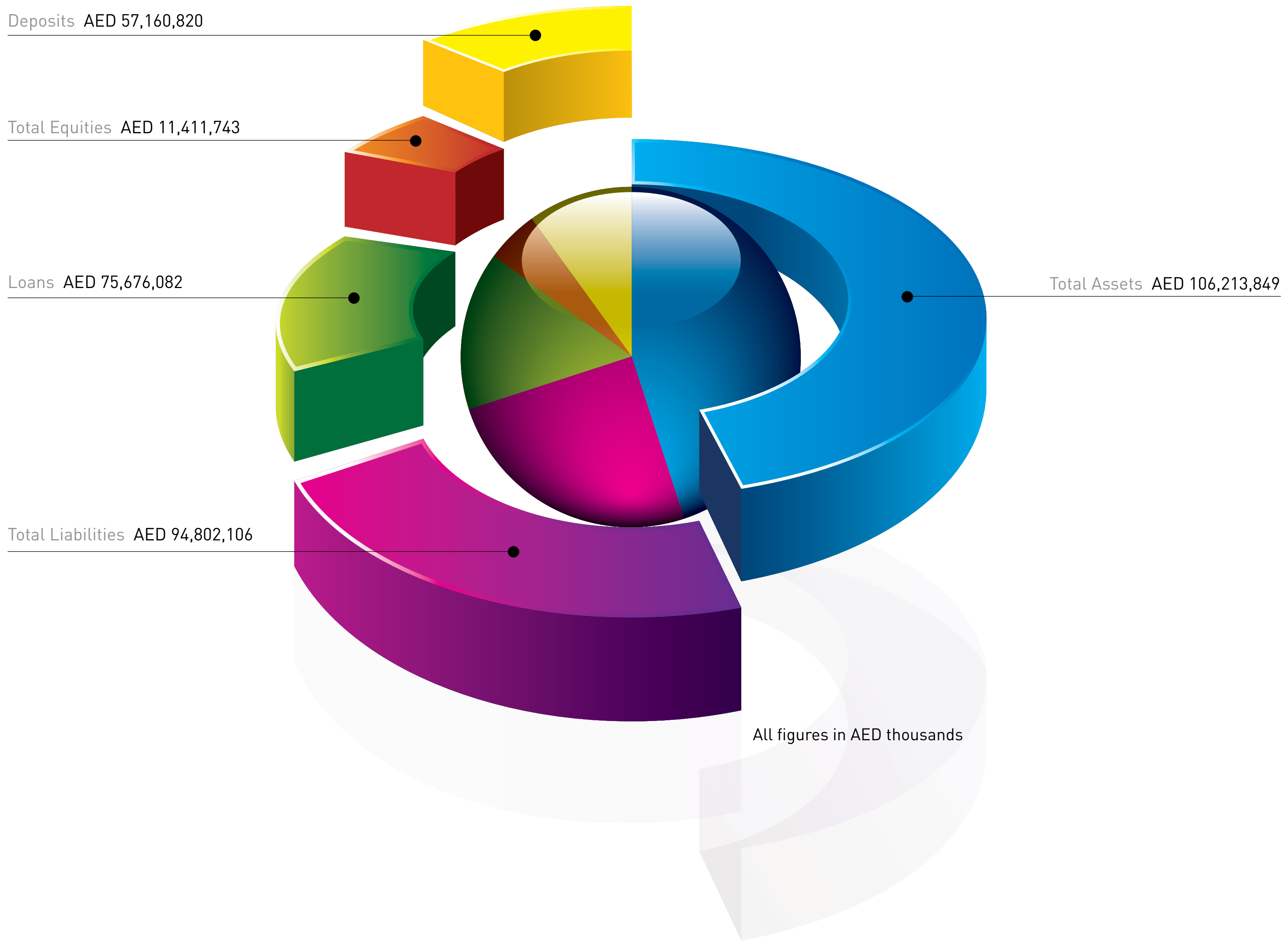


Corporate governance [FAIRNESS/TRANSPARENCY/RESPONSIBILITY/ACCOUNTABILITY]

We have always been known for promoting corporate fairness, transparency, responsibility and accountability. Now these are the guiding principles of our corporate governance initiatives. Some take too narrow a view, and say it is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. We use the expression as if it were synonymous with shareholder democracy.

Reports and consolidated financial statements

Reports and consolidated financial statements



All figures in AED thousands

ADCB Annual Report 2007 | Reports and financial statements

Independent Auditor's report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at December 31, 2007, 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 3 to 71.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2007, 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.

Abu Dhabi - U.A.E.
P.O. Box : 990
Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
February 4, 2008

Consolidated balance sheet

as at December 31, 2007

	Notes	2007 AED'000	2006 AED'000	2007 US$'000
ASSETS				
Cash and balances with Central Banks	4	15,657,588	1,898,457	4,262,888
Deposits and balances due from banks	5	6,030,364	10,065,209	1,641,809
Trading securities	6	122,433	77,630	33,333
Loans and advances, net	7	75,676,082	62,424,649	20,603,344
Derivative financial instruments	8	3,068,242	998,544	835,350
Investment securities	9	2,968,188	3,700,744	808,110
Investment properties	10	445,730	-	121,353
Other assets	11	1,752,721	1,411,121	477,191
Property and equipment, net	12	492,501	512,024	134,086
Total assets		**106,213,849**	81,088,378	**28,917,464**
LIABILITIES				
Due to banks	13	5,598,376	7,970,187	1,524,197
Customers' deposits	14	57,160,820	43,396,851	15,562,434
Short and medium term borrowings	15	27,370,264	16,610,194	7,451,746
Derivative financial instruments	8	2,413,269	806,033	657,030
Other liabilities	16	2,259,377	1,580,935	615,131
Total liabilities		**94,802,106**	70,364,200	**25,810,538**
EQUITY				
Share capital	17	4,000,000	4,000,000	1,089,028
Statutory and legal reserves	18	2,380,661	1,983,157	648,151
General and contingency reserves	18	2,150,000	2,075,000	585,353
Proposed dividends	19	1,210,000	1,210,000	329,431
Cumulative change in fair values		(94,854)	47,329	(25,825)
Retained earnings		1,651,705	1,342,892	449,688
Equity attributable to equity holders of the parent		**11,297,512**	10,658,378	**3,075,826**
Minority interest		**114,231**	65,800	**31,100**
Total equity		**11,411,743**	10,724,178	**3,106,926**
Total liabilities and equity		**106,213,849**	81,088,378	**28,917,464**
Commitments and contingent liabilities	**29**	**55,604,642**	39,232,789	**15,138,754**

Saeed Al Hajeri
Chairman

Eirvin Knox
Chief Executive Officer

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

Consolidated income statement

for the year ended December 31, 2007

	Notes	2007 AED'000	2006 AED'000	2007 US$'000
Interest income	20	5,992,224	4,127,608	1,631,425
Interest expense	21	(3,703,809)	(2,353,617)	(1,008,388)
Net interest income		**2,288,415**	1,773,991	**623,037**
Net fee and commission income	22	873,960	1,129,246	237,942
Net gains from dealing in foreign currencies	23	116,566	72,076	31,736
Increase in fair value of investment properties	10	295,361	-	80,414
Net gain on dealing in derivatives		87,724	109,396	23,883
Dividend income		356	3,785	97
Gain/(loss) on trading and investment securities	24	105,456	(28,224)	28,711
Other operating income		32,036	36,908	8,722
Operating income		**3,799,874**	3,097,178	**1,034,542**
Staff expenses		(543,743)	(440,218)	(148,039)
Depreciation	12	(50,252)	(41,064)	(13,681)
Other operating expenses		(414,635)	(272,597)	(112,887)
Allowance for doubtful loans and advances, net of recoveries		(143,363)	(193,470)	(39,032)
Impairment losses on investment securities	9	(493,535)	-	(134,368)
Impairment losses on credit default derivatives	29	(66,060)	-	(17,985)
Operating expenses		**(1,711,588)**	(947,349)	**(465,992)**
Profit from operations, before taxation		**2,088,286**	2,149,829	**568,550**
Overseas income tax expense	26	(3,356)	(2,630)	(914)
Net profit for the year		**2,084,930**	2,147,199	**567,636**
Attributed to:				
Equity holders of the parent		1,987,518	2,081,617	541,115
Minority interest		97,412	65,582	26,521
Net profit for the year		**2,084,930**	2,147,199	**567,636**
Basic earnings per share (AED)	**25**	**0.50**	0.52	**0.14**

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

Consolidated statement of changes in equity

for the year ended December 31, 2007

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2007		**4,000,000**	**1,013,972**	**969,185**	**1,925,000**	**150,000**	**1,210,000**	**47,329**	**1,342,892**	**10,658,378**	**65,800**	**10,724,178**
Dividends paid	19	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)	(48,981)	(1,258,981)
Net profit for the year 2007		-	-	-	-	-	-	-	1,987,518	1,987,518	97,412	2,084,930
Exchange difference arising on translation of foreign operations		-	-	-	-	-	-	-	8,253	8,253	-	8,253
Transfer to statutory reserve	18	-	198,752	-	-	-	-	-	(198,752)	-	-	-
Transfer to legal reserve	18	-	-	198,752	-	-	-	-	(198,752)	-	-	-
Transfer to general reserve	18	-	-	-	75,000	-	-	-	(75,000)	-	-	-
Decrease in fair value of available for sale investments		-	-	-	-	-	-	(144,581)	-	(144,581)	-	(144,581)
Board of directors' remuneration		-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	2,694	-	2,694	-	2,694
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	(296)	296	-	-	-
Proposed cash dividends	19	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2007		**4,000,000**	**1,212,724**	**1,167,937**	**2,000,000**	**150,000**	**1,210,000**	**(94,854)**	**1,651,705**	**11,297,512**	**114,231**	**11,411,743**

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

Consolidated statement of changes in equity

for the year ended December 31, 2007 (continued)

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2006		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		-	-	-	-	-	-	-	-	-	(9,265)	(9,265)
Net profit for the year 2006		-	-	-	-	-	-	-	2,081,617	2,081,617	65,582	2,147,199
Exchange difference arising on translation of foreign operations		-	-	-	-	-	-	-	1,087	1,087	-	1,087
Transfer to statutory reserve	18	-	208,162	-	-	-	-	-	(208,162)	-	-	-
Transfer to legal reserve	18	-	-	208,162	-	-	-	-	(208,162)	-	-	-
Transfer to general reserve	18	-	-	-	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 earnings on adoption of IAS 39)		-	-	-	-	-	-	-	46	46	-	46
Proposed cash dividends	19	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2006		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.

Consolidated statement of cash flows

for the year ended
December 31, 2007

	Note	2007 AED'000	2006 AED'000	2007 US$ 000
OPERATING ACTIVITIES				
Net profit before taxation and minority interest		2,088,286	2,149,829	568,550
Adjustments for:				
Exchange differences arising on translation of foreign operations		7,589	956	2,067
Depreciation on property and equipment		50,252	41,064	13,681
Gain on sale of property and equipment		(396)	(25)	(108)
Allowance for doubtful loans and advances		294,702	339,293	80,235
Recovery of allowance for doubtful loans and advances		(151,339)	(145,823)	(41,203)
Impairment loss on investment securities		493,535	-	134,368
Impairment loss on credit default derivatives		66,060	-	17,985
Gain on sale of investment securities		(105,456)	(11,467)	(28,711)
Increase in fair value of investment properties		(295,361)	-	(80,414)
Operating profit before changes in operating assets and liabilities		**2,447,872**	2,373,827	**666,450**
Decrease in due from banks		1,994,085	455,112	542,904
(Increase)/decrease in trading securities		(44,803)	315,206	(12,198)
Increase in loans and advances to customers		(13,394,796)	(20,454,058)	(3,646,827)
Increase in derivative financial assets		(1,879,179)	(587,709)	(511,620)
Increase in other assets		(341,600)	(442,805)	(93,003)
Increase/(decrease) in due to banks		2,324,877	(1,312,767)	632,964
Increase in customers' deposits		13,763,968	9,459,472	3,747,337
Increase in derivative financial liabilities		1,607,236	448,280	437,581
Increase in other liabilities		611,712	515,980	166,543
Cash from/(used in) operations		**7,089,372**	(9,229,462)	**1,930,131**
Directors' remuneration paid		(4,750)	(1,850)	(1,293)
Overseas taxation paid		(2,686)	(2,630)	(731)
Net cash from/(used in) operations		**7,081,936**	(9,233,942)	**1,928,107**
INVESTING ACTIVITIES				
Purchase of investment securities		(1,141,700)	(3,705,912)	(310,836)
Proceeds from sale of investment securities		1,344,290	1,759,583	365,992
Purchase of property and equipment, net		(90,515)	(149,776)	(24,643)
Purchase of investment properties		(90,072)	-	(24,523)
Proceeds from sale of property and equipment		550	36	150
Net cash from/(used in) investing activities		**22,553**	(2,096,069)	**6,140**
FINANCING ACTIVITIES				
Proceeds from short and medium term borrowings		10,569,551	8,832,980	2,877,634
Dividends paid to Bank's shareholders		(1,210,000)	-	(329,431)
Dividends paid – minority shareholders		(48,981)	(9,265)	(13,335)
Net cash from financing activities		**9,310,570**	8,823,715	**2,534,868**
Increase/(decrease) in cash and cash equivalents		**16,415,059**	(2,506,296)	**4,469,115**
Cash and cash equivalents at beginning of the year		1,436,830	3,943,126	391,187
Cash and cash equivalents at the end of the year	27	**17,851,889**	1,436,830	**4,860,302**

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

Notes to the consolidated financial statements

for the year ended
December 31, 2007

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 thirty nine branches in the United Arab Emirates, two branches in India, its subsidiaries and joint ventures.

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).

2 Significant accounting policies

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

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

Statement of compliance

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 (IFRIC) 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 IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to International Accounting Standard (IAS)1 Presentation of Financial Statements.

IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank measures capital. IFRIC 10 Interim Financial Reporting and Impairment requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

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

IAS 1 (Revised)	**Presentation of Financial Statements** (effective for accounting periods beginning on or after January 1, 2009)
IAS 23 (Revised)	**Borrowing Costs** (effective for accounting periods beginning on or after January 1, 2009)
IFRS 8	**Operating Segments** (effective for accounting periods beginning on or after January 1, 2009)
IFRIC 11	**Bank and Treasury Share Transactions** (effective for accounting periods beginning on or after March 1, 2007)
IFRIC 12	**Service Concession Arrangements** (effective for accounting periods beginning on or after January 1, 2008)
IFRIC 13	**Customer Loyalty Programs** (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 14	**The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for accounting periods beginning on or after January 1, 2008)

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Bank's financial statements for the period commencing January 1, 2008 or as and when it is applicable, and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

Basis of measurement

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 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 financial statements of the Bank and of the following subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Name of Subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C.	51%	2005	UAE	Providing computer software and design in relation with risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2006	UAE	Real estate property management and investments.
ADCB Real Estate Fund	100%	2007	UAE	Investing in Real Estate assets in the UAE.

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

Up to 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.

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Due from banks

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

Investments

Trading securities

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

Investment securities

These are classified as follows:
- Held to maturity
- Available for sale

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

Held to maturity

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Investments (continued)

Available for sale

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

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. 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 consolidated 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 consolidated income statement to the extent of the changes in fair value being hedged.

Fair values

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Loans and advances

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Impairment of financial assets

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

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

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

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

Impairment of tangible and intangible assets

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

Loan impairment

Individually assessed loans

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

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.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Loan impairment (continued)

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 consolidated balance sheet date but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a 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.

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

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 consolidated income statement.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

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

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated 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 the 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 consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in equity are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Derivative financial instruments (continued)

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 consolidated 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.

Investment properties

Investment properties, which are properties held to earn rentals and/or capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are included in the consolidated income statement.

Property and equipment

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

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

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

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

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Capital work in progress

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

Other financial liabilities

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

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

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

Customers' deposits and short and medium term borrowings

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

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.

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.

Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

2 Significant accounting policies (continued)

Repurchase and resale agreements

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

Acceptances

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

Financial guarantees

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

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

Recognition and de-recognition of financial instruments

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

Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

2 Significant accounting policies (continued)

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.

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 consolidated financial statements.

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.

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Foreign currencies

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

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

Trade and settlement date accounting

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

3 Critical accounting judgments 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 judgments. These judgments mainly have a significant effect on the carrying amounts of loans and advances, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of loans and advances, investment securities and fair values of derivative financial instruments are summarised as follows:

Loans and advances

The allowance for loan losses is established through charges to the 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.

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Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

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

Individually assessed loans

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

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

- The amount expected to be realised on 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.

Collectively assessed loans

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

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

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

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 the 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 is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

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.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

4 Cash and balances with Central Banks

	2007 AED'000	2006 AED'000
Cash on hand	**367,461**	331,813
Balances with Central Banks	**2,290,127**	1,566,644
Certificate of deposits with Central Bank	**13,000,000**	-
	15,657,588	1,898,457

5 Deposits and balances due from banks

	2007 AED'000	2006 AED'000
Current and demand deposits	**60,366**	46,242
Placements	**5,969,998**	10,018,967
	6,030,364	10,065,209

6 Trading securities

	2007 AED'000	2006 AED'000
Fair value:		
Quoted fund	**122,278**	77,008
Mutual funds	**155**	622
	122,433	77,630

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

7 Loans and advances, net

	2007 AED'000	2006 AED'000
Overdrafts (Retail and Corporate)	14,021,744	15,438,771
Retail loans	7,122,069	5,085,866
Corporate loans	53,033,990	39,761,248
Credit cards	685,182	459,405
Other facilities	1,963,054	2,662,241
	76,826,039	63,407,531
Less: Allowance for impairment	(1,149,957)	(982,882)
	75,676,082	62,424,649

Loans and advances are summarised as follows:

	2007 AED'000	2006 AED'000
Performing loans	75,635,272	55,473,932
Other loans exceptionally monitored	135,352	6,755,754
Non performing loans	1,055,415	1,177,845
	76,826,039	63,407,531
Less: Allowance for impairment	(1,149,957)	(982,882)
	75,676,082	62,424,649

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 609,480 thousand (2006 – AED 667,680 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.

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Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

7 Loans and advances, net (continued)

	Overdrafts		Retail						
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000	Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
At December 31, 2007									
Performing loans	528,801	12,891,036	3,375,165	1,127,343	2,277,135	617,549	52,855,189	1,963,054	75,635,272
Other loans exceptionally monitored	80	79,208	9,302	9,984	10,282	-	26,496	-	135,352
Non performing loans	7,677	514,942	259,916	25,784	27,158	67,633	152,305	-	1,055,415
	536,558	13,485,186	3,644,383	1,163,111	2,314,575	685,182	53,033,990	1,963,054	76,826,039

	Overdrafts		Retail						
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000	Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
At December 31, 2006									
Performing loans	90,382	8,457,185	2,978,148	798,848	1,030,397	411,947	39,044,784	2,662,241	55,473,932
Other loans exceptionally monitored	1,298	6,402,353	7,064	7,367	5,594	-	332,078	-	6,755,754
Non performing loans	6,640	480,913	244,423	3,460	10,565	47,458	384,386	-	1,177,845
	98,320	15,340,451	3,229,635	809,675	1,046,556	459,405	39,761,248	2,662,241	63,407,531

The value of collateral that the Bank holds relating to loans and advances as of December 31, 2007 with the collateral classes is as follows:

	Guarantees AED'000	Vehicles and machinery AED'000	Property and mortgages AED'000	Deposits AED'000	Other assignments AED'000	Total AED'000
Fair value of collaterals	11,704,286	526,988	28,433,310	596,921	13,754,059	55,015,564

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

7 Loans and advances, net (continued)

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

	2007			2006		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	**659,229**	**323,653**	**982,882**	523,511	190,589	714,100
Charge for the year	177,861	117,439	295,300	204,301	134,992	339,293
Recoveries	(151,937)	-	(151,937)	(145,823)	-	(145,823)
Net amounts written back/(off)	27,160	(7,855)	19,305	76,598	(1,987)	74,611
Currency translation	4,179	228	4,407	642	59	701
At December 31	**716,492**	**433,465**	**1,149,957**	659,229	323,653	982,882

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

	2007			2006		
	Domestic AED'000	**International AED'000**	**Total AED'000**	Domestic AED'000	International AED'000	Total AED'000
Economic sector						
Agriculture	14,612	-	14,612	20,401	-	20,401
Energy	215,039	701,989	917,028	736,397	678,915	1,415,312
Trading	2,936,837	17,662	2,954,499	2,455,022	189,288	2,644,310
Construction	5,421,476	183,011	5,604,487	1,906,587	16,958	1,923,545
Transport	2,037,553	1,286,206	3,323,759	2,686,597	432,461	3,119,058
Personal	7,597,731	965,455	8,563,186	9,314,160	807,087	10,121,247
Personal – Retail loans	7,489,192	6,660	7,495,852	4,744,689	8,208	4,752,897
Personal – Loans against shares	10,479,289	-	10,479,289	11,943,790	-	11,943,790
Government	1,740,981	-	1,740,981	2,837,996	-	2,837,996
Financial Institution	14,249,678	2,111,759	16,361,437	7,361,006	2,486,488	9,847,494
Manufacturing	1,449,994	1,147,421	2,597,415	1,551,050	413,615	1,964,665
Services	12,592,077	3,120,556	15,712,633	9,356,043	2,609,229	11,965,272
Others	1,024,131	36,730	1,060,861	814,814	36,730	851,544
Total	**67,248,590**	**9,577,449**	**76,826,039**	55,728,552	7,678,979	63,407,531
Less: Allowance for impairment			(1,149,957)			(982,882)
Total			**75,676,082**			62,424,649

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

8 Derivative financial instruments

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

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

Forward currency transactions

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

Swap transactions

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

Option transactions

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

8 Derivative financial instruments (continued)

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

	Fair values	
	Assets AED'000	Liabilities AED'000
At December 31, 2007		
Derivatives held for trading		
Forward foreign exchange contracts	126,498	171,556
Interest rate swaps and forward rate agreements	1,599,877	1,641,097
Options	414,199	387,675
Futures	1,826	1,216
Commodity forwards	228,794	206,477
Energy swaps	5,248	5,248
	2,376,442	2,413,269
Derivatives held for hedging	691,800	-
	3,068,242	2,413,269
At December 31, 2006		
Derivatives held for trading		
Forward foreign exchange contracts	220,002	228,476
Interest rate swaps and forward rate agreements	470,760	502,172
Options	58,713	41,149
Futures	-	182
Commodity forwards	33,363	13,175
Energy swaps	20,879	20,879
	803,717	806,033
Derivatives held for hedging	194,827	-
	998,544	806,033

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

8 Derivative financial instruments (continued)

Derivative related credit risk

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

9 Investment securities

	2007 AED'000	2006 AED'000
Available for sale investments		
Quoted:		
Floating rate notes (FRN)	788,522	221,185
Collateralised debt obligations (CDO)	649,720	968,414
Equity instruments	128,399	75,456
UAE bonds	1,016,780	1,404,042
Others	200,806	154,592
	2,784,227	2,823,689
Unquoted:		
Floating rate notes (FRN)	180,205	495,469
Collateralised debt obligations (CDO)	36,730	-
Equity instruments	246,286	111,168
Others	30,625	8,308
	493,846	614,945
Gross total	**3,278,073**	3,438,634
Allowance for impairment	(378,512)	-
	2,899,561	3,438,634
Held to maturity		
Floating rate notes (FRN)	183,650	262,110
Allowance for impairment	(115,023)	-
	68,627	262,110
	2,968,188	3,700,744

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

The movement in investment securities is summarised as follows:

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

The following is the movement in the allowance for impairment:

	2007 AED'000	2006 AED'000
At January 1	**-**	-
Provided on Available for Sale investments	(378,512)	-
Provided on Held to Maturity investments	(115,023)	-
At December 31	**(493,535)**	-

The investment securities include AED 1,796,140 thousand in Structured Investment Vehicles (SIVs) and other Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), which are dependent on the performance of collateral located outside UAE, primarily assets in the USA and Western Europe. The Bank's exposure in SIVs and Asset Backed Securities (ABS) CDOs a total of AED 953,130 thousand are negatively impacted by the downfall in USA sub prime and the subsequent liquidity crisis. The Bank has made portfolio provisions for impairment amounting to AED 493,535 thousand against the exposed SIVs and ABS CDOs.

The sub-prime crisis and the attendant liquidity crisis that followed led to a significant decline in both the indicative and economic value of the ABS CDO investments. In addition, the SIV securities have been impacted by the lack of liquidity and general credit concerns for structured finance investments. The indicative values provided by the arranging financial institutions of these investment securities are considerably influenced by the general illiquid conditions prevailing in the market. As a result of the dislocation in market conditions the Bank adopted a portfolio impairment approach for these investment securities .

To obtain an arm's length fair valuation of these securities, the Bank appointed two independent external valuers "Clayton" and "Prytania' to assess the economic value of these investment securities.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

These independent external valuers conducted a detailed economic analysis of the underlying assets with respect to these securities. This included assessing the integrity and performance of the collateral, as well as the validity of inputs and assumptions used in modeling. The key valuation fields used in the analysis were as follows:

- Future expected prepayments speed (Constant Prepayment Rate) from the collateral pool; assessed on an individual bond basis;
- Future expected default rate (Constant Default Rate) for the collateral pool, assessed on an individual bond basis;
- Delinquency trigger – Value used in relation to structure based trigger thresholds;
- Run to call – determination of the likelihood of the underlying bonds and structure bond being called at some point of time in the future;
- Current expected weighted average life (WAL) – projected weighted average life of the bond based on model results ;
- Principal Window – timing when principal payments are expected to be received;
- Current expected loss severity – percentage of loss for the underlying collateral pool supporting each bond; and
- Principal loss or write-downs – month/year window that principal losses and or write-downs are expected to be received per model input.

These valuation models have indicated that while some of these investments are not currently impaired, they are likely to be impaired under stress testing conditions.

The portfolio impairment provisions represents the anticipated loss estimated by the Bank across the portfolio of ABS CDOs and SIVs, investments in the near to medium term.

While the majority of these investments continue to pay coupons, the evaluations have indicated that they are likely to become permanently impaired and or will experience some actual economic losses in the near to medium term.

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

The Bank's investment portfolio consists of investments rated by credit rating agencies, as follows:

Ratings	2007 %	2006 %
AAA	**6.38**	1.70
AA	**18.89**	16.76
A	**17.21**	11.27
BBB	**16.66**	17.21
BB	**6.72**	5.96
B	**4.26**	4.26
CCC	**6.81**	-
Unrated	**23.07**	42.84
Total	**100**	100

10 Investment properties

	2007 AED'000	2006 AED'000
At January 1	**-**	-
Additions	**150,369**	-
Increase in fair value of investment properties	**295,361**	-
At December 31	**445,730**	-

The fair value of the Bank's investment properties have been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated by considering recent prices for similar properties in the same location and similar condition, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation is December 31, 2007.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

11 Other assets

	2007 AED'000	2006 AED'000
Interest receivable	**664,718**	574,598
Withholding taxation	**37,937**	86,062
Advance paid for purchase of investment	**93,662**	-
Prepayments	**126,867**	108,072
Clearing receivables	**180,448**	190,461
Acceptances	**493,120**	290,178
Others	**155,969**	161,750
	1,752,721	1,411,121

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

12 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2006	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)
At January 1, 2007	**442,326**	**30,940**	**79,093**	**171,520**	**43,348**	**767,227**
Exchange difference	-	593	751	50	-	1,394
Additions during the year	20,328	668	4,394	6,444	61,192	93,026
Transfers	(48,978)	24,935	8,822	13,158	(62,770)	(64,833)
Transfer to expenses	-	-	-	-	(2,511)	(2,511)
Disposals	(500)	-	-	-	-	(500)
At December 31, 2007	**413,176**	**57,136**	**93,060**	**191,172**	**39,259**	**793,803**
Accumulated depreciation						
At January 1, 2006	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)
At January 1, 2007	**115,975**	**14,499**	**51,313**	**73,416**	**-**	**255,203**
Exchange difference	-	22	674	37	-	733
Charge for the year	17,633	3,111	9,341	20,167	-	50,252
Transfers	(4,540)	-	-	-	-	(4,540)
Disposals	(346)	-	-		-	(346)
At December 31, 2007	**128,722**	**17,632**	**61,328**	**93,620**	**-**	**301,302**
Carrying amount						
At December 31, 2007	**284,454**	**39,504**	**31,732**	**97,552**	**39,259**	**492,501**
At December 31, 2006	326,351	16,441	27,780	98,104	43,348	512,024

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

13 Due to banks

	2007 AED'000	2006 AED'000
Current and demand deposits	227,825	171,848
Deposits maturing within one year	5,037,024	7,781,998
Deposits maturing after one year	333,527	16,341
	5,598,376	7,970,187

14 Customers' deposits

	2007 AED'000	2006 AED'000
By category:		
Call and demand deposits	13,347,838	9,725,428
Savings deposits	1,114,235	1,007,336
Time deposits	34,206,630	27,736,917
Long term government deposits	609,480	667,680
Islamic product related deposits	4,660,216	35,602
Euro commercial paper	3,222,421	4,223,888
	57,160,820	43,396,851
By sector :		
Retail	17,755,863	14,621,054
Corporate	31,096,356	23,361,607
Government	8,308,601	5,414,190
	57,160,820	43,396,851

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

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Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2006 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Euro (EUR)	106,664	-	-	106,664
	Hong Kong Dollar (HKD)	311,673	-	47,223	358,896
	Japanese Yen (JPY)	46,275	-	154,250	200,525
	New Zealand Dollar (NZD)	64,682	-	-	64,682
	Pound Sterling (GBP)	-	-	3,595,592	3,595,592
	Swiss Franc (CHF)	-	156,792	904,568	1,061,360
	Turkish Lira (TRL)	-	-	96,295	96,295
	UAE Dirham (AED)	-	365,000	1,000,000	1,365,000
	US Dollar (US$)	459,125	422,395	3,709,730	4,591,250
		988,419	944,187	9,507,658	11,440,264
Syndicated loan	US Dollar (US$)	-	3,673,000	-	3,673,000
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	1,469,200
		988,419	4,617,187	10,976,858	16,582,464
Fair value adjustment of cross currency swap					27,730
					16,610,194

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings (continued)

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

Currency	Within 1 year	1-3 years	Over 3 years
AUD	3 months AUD-BBSW plus 10 basis points	-	3 months AUD-BBSW plus 30 basis points
EUR	-	3 months LIBOR plus 22 basis points	-
HKD	Fixed rate of 4.49% p.a.	-	3 months HKD offer rate plus 29 to 35 basis points
JPY	-	-	Fixed rate of 1.66% p.a.
NZD	Fixed rate of 8% p.a.	-	-
GBP	-	-	Fixed rate of 5.625% p.a.
SKK	-	-	3 months BRIBOR plus 11 basis points
ZAR	-	-	3 months JIBAR plus 41 basis points
CHF	3 months LIBOR plus 70 basis points	3 months LIBOR plus 10 basis points	Fixed rate of 2.76% p.a.
TRY	-	-	Fixed rate of 12.75% p.a.
AED	3 months EIBOR plus 10 basis points & fixed rates of 4.855% to 5% p.a.	3 months EIBOR plus 22 to 52 basis points	Fixed rate of 6% p.a.
USD	3 months LIBOR plus 5 basis points	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 24 to 35 basis points	3 months LIBOR plus 30 basis points

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.

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 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 37) if these are not redeemed during 2011. This has been approved by the Central Bank of United Arab Emirates.

The Bank also has an unsecured standby facility of US$ 850,000 thousand (31 December 2006 – US$ 1,000,000 thousand) from a consortium of banks with a drawdown period of one year.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

16 Other liabilities

	2007 AED'000	2006 AED'000
Interest payable	547,742	376,662
Employees' end of service benefits	67,610	64,804
Accounts payable and other creditors	24,824	37,446
Clearing payables	347,627	289,411
Deferred income	104,123	139,279
Acceptances	493,120	290,178
Others	674,331	383,155
	2,259,377	1,580,935

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

17 Share capital

	Authorised	Issued and fully paid	
		2007	2006
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	4,000,000	4,000,000	4,000,000

	2007		2006	
	Number of shares	AED'000	Number of shares	AED'000
As of December 31	4,000,000,000	4,000,000	4,000,000,000	4,000,000

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

18 Statutory and other reserves

Statutory reserve

As required by Article 82 of Union Law No 10 of 1980, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The statutory reserve is not available for distribution.

Legal reserve

In accordance with the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The legal reserve is not available for distribution.

General reserve

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

Contingency reserve

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

19 Proposed dividends

For the year ended December 31, 2007, the Board of Directors have proposed to pay a cash dividend of AED 1,210,000 thousand (2006 : cash dividend of AED 1,210,000 thousand) representing 30.25% of the paid up capital. This is subject to the approval of the shareholders in the Annual General Meeting.

20 Interest income

	2007 AED'000	2006 AED'000
Loans and advances to banks	960,059	652,306
Loans and advances to customers	4,824,081	3,307,888
Investment securities	208,084	167,414
	5,992,224	4,127,608

Interest income from investment securities includes an amount of AED 13,086 thousand (2006 – AED 21,310 thousand) generated from Held to Maturity investments which are carried at amortised cost.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

21 Interest expense

	2007 AED'000	2006 AED'000
Deposits from banks	**372,426**	233,816
Deposits from customers	**2,059,636**	1,509,840
Debt securities issued and subordinated liabilities	**1,246,047**	591,740
Others	**25,700**	18,221
	3,703,809	2,353,617

There is no interest expense reported above that is incurred in relation to financial liabilities carried at fair value through profit or loss.

22 Net fee and commission income

	2007 AED'000	2006 AED'000
Fee and commission income		
Retail banking fees	**310,995**	238,759
Corporate banking fees	**354,229**	184,407
Investment banking fees	**96,214**	57,657
Brokerage fees	**37,612**	34,412
Fee from trust and other fiduciary activities	**83,236**	75,679
Initial public offering fee income	**2,523**	547,201
Other fees	**13,153**	-
Total fee and commission income	**897,962**	1,138,115
Fee and commission expenses	**(24,002)**	(8,869)
Net fee and commission income	**873,960**	1,129,246

23 Net gains from dealing in foreign currencies

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

24 Gain/(loss) on trading and investment securities

	2007 AED'000	2006 AED'000
Gain/(loss) on trading securities	**45,295**	(39,691)
Gain on sale of available for sale investments	**60,161**	11,467
	105,456	(28,224)

25 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:

	2007	2006
Net profit for the year attributable to the equity holders of the Bank (AED'000)	**1,987,518**	2,081,617
Weighted average number of shares in issue during the year (000's)	**4,000,000**	4,000,000
Basic earnings per share (AED)	**0.50**	0.52

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

26 Taxation

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

27 Cash and cash equivalents

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

	2007 AED'000	2006 AED'000
Cash and balances with Central Banks	15,657,588	1,898,457
Due from banks	6,030,364	10,065,209
Due to banks	(5,598,376)	(7,970,187)
	16,089,576	3,993,479
Less: Due from banks – maturity more than 3 months	(740,073)	(2,734,158)
Add: Due to banks – maturity more than 3 months	2,502,386	177,509
	17,851,889	1,436,830

28 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

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

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

	2007 AED'000	2006 AED'000
Loans and advances :		
To Directors	106,035	33,662
To Key Managers	10,886	2,369
	116,921	36,031
Customers' deposits :		
From Directors	18,077	37,104
From major shareholders	4,497,667	3,673,000
From Key Managers	6,863	5,067
	4,522,607	3,715,171

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

28 Related party transactions (continued)

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

	2007 AED'000	2006 AED'000
Investments in funds managed by the Bank – at fair values:		
Held for trading securities	122,278	77,008
Available for sale investments	30,625	6,250
	152,903	83,258
Irrevocable commitments and contingencies:		
To Directors	76,291	74,859

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

	2007 AED'000	2006 AED'000
Interest, fees and commission income:		
- Directors	2,775	3,201
- Key Managers	128	101
- Trust Activities	70,407	42,163
- Gain on disposal of available for sale investments	26,585	-
	99,895	45,465
Interest expense:		
- Directors	404	212
- Major shareholders	166,151	175,726
- Key Managers	12	98
	166,567	176,036

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

	2007 AED'000	2006 AED'000
Short term benefits	36,102	32,814

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.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

29 Commitments and contingent liabilities

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

	2007 AED'000	2006 AED'000
Commitments on behalf of customers		
Letters of credit	5,893,930	2,931,974
Guarantees	14,760,040	13,312,039
Irrevocable commitments to extend credit	31,578,427	21,773,655
Credit default swaps	3,221,685	1,153,322
	55,454,082	39,170,990
Others		
Commitments for future capital expenditure	56,980	53,152
Commitments to invest in investment securities	93,580	8,647
	55,604,642	39,232,789

Credit-related commitments

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

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

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

The Bank's estimated total exposure in credit default swaps which are linked to the Sub-prime crisis amounted to AED 147,000 thousand. The Bank has provided an amount of AED 66,060 thousand (2006 – AED Nil) towards expected calls against these impaired credit default swaps based on the external valuers reports and recommendations as discussed in Note 9.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

30 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, and fund managing activities and (ii) Investment Banking, which involves the management of the Bank's investment portfolio, dealing in derivatives and treasury activities. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year was as follows:

	Commercial Banking		Investment Banking		Total	
	2007 AED'000	2006 AED'000	2007 AED'000	2006 AED'000	2007 AED'000	2006 AED'000
Operating income	3,320,481	2,685,841	479,393	411,337	3,799,874	3,097,178
Segment result and profit from operations	2,214,145	1,860,348	(125,859)	289,481	2,088,286	2,149,829
Minority interest	-	-	(97,412)	(65,582)	(97,412)	(65,582)
Net profit before income tax	2,214,145	1,860,348	(223,271)	223,899	1,990,874	2,084,247
Income tax expense Unallocated					(3,356)	(2,630)
Net profit for the year					1,987,518	2,081,617
Other information						
Segment assets	77,875,154	64,914,378	28,338,695	16,174,000	106,213,849	81,088,378
Segment liabilities	66,331,380	54,190,200	28,470,726	16,174,000	94,802,106	70,364,200
Equity					11,411,743	10,724,178
Total liabilities and equity					106,213,849	81,088,378
Capital expenditure incurred during the year, net	90,253	139,170	262	10,606	90,515	149,776
Depreciation expense during the year	45,884	39,148	4,368	1,916	50,252	41,064

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

30 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, represents the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India. 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	
	2007	2006	**2007**	2006	**2007**	2006
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Operating income	**3,770,430**	3,081,697	**29,444**	15,481	**3,799,874**	3,097,178
Profit before taxation	**2,071,750**	2,142,920	**16,536**	6,909	**2,088,286**	2,149,829
Income tax expense	**-**	-	**(3,356)**	(2,630)	**(3,356)**	(2,630)
Minority interest	**(97,412)**	(65,582)	**-**	-	**(97,412)**	(65,582)
Net profit for the year	**1,974,338**	2,077,338	**13,180**	4,279	**1,987,518**	2,081,617
Segment assets	**105,691,414**	80,430,668	**522,435**	657,710	**106,213,849**	81,088,378
Segment liabilities	**94,295,870**	69,710,769	**506,236**	653,431	**94,802,106**	70,364,200
Capital expenditure incurred during the year, net	**90,291**	149,616	**224**	160	**90,515**	149,776

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

31 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.

Management of credit risk

The Bank's credit risk management framework includes:

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

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

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

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

Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

31 Credit risk (continued)

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 8.

Credit risk measurement

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

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

The Bank also uses the external ratings like Standard & Poor's ("S&P"). As per the S&P report, the credit rating of the Bank is A / Stable / A-1

Risk limit control and mitigation policies

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

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

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

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

(a) Collateral

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

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

Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

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

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

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

(c) Master netting arrangements

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(c) Master netting arrangements (continued)

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

	2007			2006		
	Carrying value	**Off balance sheet items**	**Maximum credit exposure**	Carrying value	Off balance sheet items	Maximum credit exposure
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Deposits and balances due from banks	6,030,364	-	6,030,364	10,065,209	-	10,065,209
Loans and advances, net	75,676,082	-	75,066,602	62,424,649	-	61,756,969
Investment securities - unquoted, available for sale and held to maturity	464,486	93,580	558,066	877,055	8,647	885,702
Derivative financial instruments	3,068,242	-	3,068,242	998,544	-	998,544
Other assets	1,752,721	-	1,534,335	1,411,121	-	1,134,598
Bank guarantees	-	14,760,040	14,418,720	-	13,312,039	12,958,200
Letters of credit	-	5,893,930	5,869,749	-	2,931,974	2,897,797
Irrevocable commitments to extend credit	-	31,578,427	31,578,427	-	21,773,655	21,773,655
Credit default swaps	-	3,221,685	3,221,685	-	1,153,322	1,153,322
Total	**86,991,895**	**55,547,662**	**141,346,190**	75,776,578	39,179,637	113,623,996

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

32 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:

	2007			2006		
	Assets	**Liabilities and equity**	**Off-balance sheet items**	Assets	Liabilities and equity	Off-balance sheet items
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Geographic region						
Domestic (UAE)	91,496,033	67,979,894	44,240,783	59,882,466	45,650,394	29,762,851
Other GCC countries	4,654,149	4,137,191	2,460,698	4,654,492	3,941,019	1,868,656
Other Arab countries	215,489	512,994	38,659	674,714	1,367,594	238,005
Asia	3,390,105	947,632	2,071,567	7,239,587	2,997,885	3,215,187
Europe	3,211,082	32,413,998	5,008,896	5,372,049	26,362,195	3,700,458
USA	785,786	(117,651)	1,450,453	1,470,592	109,389	41,077
Rest of the World	2,461,205	339,791	333,586	1,794,478	659,902	406,555
Total	**106,213,849**	**106,213,849**	**55,604,642**	81,088,378	81,088,378	39,232,789
Industry sector						
Commercial & business	31,108,257	33,411,681	41,959,920	18,280,524	19,685,972	13,264,254
Personal	28,960,312	15,257,406	2,915,572	25,146,954	13,873,891	9,065,555
Public sector	917,028	768,762	106,827	12,832,673	6,296,933	6,659,949
Government	1,740,981	14,241,482	49,960	2,263,171	13,030,382	3,535,314
Banks and financial institutions	43,487,271	42,534,518	10,572,363	22,565,056	28,201,200	6,707,717
Total	**106,213,849**	**106,213,849**	**55,604,642**	81,088,378	81,088,378	39,232,789

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

33 Interest rate risk

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 assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of 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.

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

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

33 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2007 was as follows:

	Effective rate	Less than 3 months	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
Assets								
Cash and balances with Central Banks	3.76	12,500,000	-	500,000	-	-	2,657,588	**15,657,588**
Deposits and balances due from banks	5.10	5,768,634	41,418	159,946	-	10,209	50,157	**6,030,364**
Trading securities	-	-	-	-	-	-	122,433	**122,433**
Loans and advances, net	7.24	57,886,983	8,009,945	639,133	1,608,945	8,864,418	(1,333,342)	**75,676,082**
Derivative financial instruments	-	2,061,168	524,296	75,372	343,274	64,132	-	**3,068,242**
Investment securities	6.47	1,605,689	669,361	684,595	8,543	-	-	**2,968,188**
Investment properties	-	-	-	-	-	-	445,730	**445,730**
Other assets	-	-	-	-	-	-	1,752,721	**1,752,721**
Property and equipment, net	-	-	-	-	-	-	492,501	**492,501**
Total assets		79,822,474	9,245,020	2,059,046	1,960,762	8,938,759	4,187,788	**106,213,849**
Liabilities and equity								
Due to banks	4.52	3,358,583	1,732,258	252,949	26,761	-	227,825	**5,598,376**
Customers' deposits	3.96	39,506,947	4,712,421	3,564,579	81,769	11,760	9,283,344	**57,160,820**
Short and medium term borrowings	5.48	20,393,771	2,588,274	4,169,970	-	-	218,249	**27,370,264**
Derivative financial instruments	-	1,728,191	245,728	80,879	278,625	79,846	-	**2,413,269**
Other liabilities	-	-	-	-	-	-	2,259,377	**2,259,377**
Equity	-	-	-	-	-	-	11,411,743	**11,411,743**
Total liabilities and equity		64,987,492	9,278,681	8,068,377	387,155	91,606	23,400,538	**106,213,849**
On-balance sheet gap		14,834,982	(33,661)	(6,009,331)	1,573,607	8,847,153	(19,212,750)	-
Off-balance sheet gap		(3,101,704)	(2,241,568)	325,517	1,587,772	3,429,983	-	-
Total interest rate sensitivity gap		11,733,278	(2,275,229)	(5,683,814)	3,161,379	12,277,136	(19,212,750)	-
Cumulative interest rate sensitivity gap		11,733,278	9,458,049	3,774,235	6,935,614	19,212,750	-	-

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

33 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 AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	-	-	-	-	-	-	1,898,457	1,898,457
Deposits and balances due from banks	4.70	9,876,906	8,380	127,605	16,341	-	35,977	10,065,209
Trading securities	-	-	-	-	-	-	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
Derivative financial instruments	-	727,275	130,618	30,070	78,979	31,602	-	998,544
Investment securities	6.91	1,886,210	439,046	56,171	1,826	1,101,053	216,438	3,700,744
Other assets	-	-	-	-	-	-	1,411,121	1,411,121
Property and equipment, net	-	-	-	-	-	-	512,024	512,024
Total assets		57,131,371	8,361,179	1,070,829	854,513	8,403,079	5,267,407	81,088,378
Liabilities and equity								
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
Derivative financial instruments	-	665,998	43,963	23,819	42,037	30,216	-	806,033
Other liabilities	-	-	-	-	-	-	1,580,935	1,580,935
Equity	-	-	-	-	-	-	10,724,178	10,724,178
Total liabilities and equity		50,982,243	3,994,451	5,548,864	264,312	697,896	19,600,612	81,088,378
On-balance sheet gap		6,149,128	4,366,728	(4,478,035)	590,201	7,705,183	(14,333,205)	-
Off-balance sheet gap		75,296	(183,650)	73,460	89,989	(55,095)	-	-
Total interest rate sensitivity gap		6,224,424	4,183,078	(4,404,575)	680,190	7,650,088	(14,333,205)	-
Cumulative interest rate sensitivity gap		6,224,424	10,407,502	6,002,927	6,683,117	14,333,205	-	-

Included in investment securities 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.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

34 Liquidity risk

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

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

Liquidity risk management process

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

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

Liquidity risk management process (continued)

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

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

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

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	31-March	30-June	30-September	31-December
	%	%	%	%
2007	**87.50**	**85.50**	**86.64**	**84.92**
2006	102.29	89.00	93.30	98.05

The Bank also has unsecured standby facilities of USD 850,000 thousand (2006 – USD 1,000,000 thousand) to fund its liquidity needs (Note 15).

Funding approach

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2006 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	1,898,457	1,898,457	-	-	-	-
Deposits and balances due from banks	10,065,209	7,331,051	2,590,212	127,605	16,341	-
Trading securities	77,630	77,630	-	-	-	-
Loans and advances, net	62,424,649	21,309,974	3,706,877	3,561,742	7,013,558	26,832,498
Derivative financial instruments	998,544	53,893	37,197	31,925	319,235	556,294
Investment securities	3,700,744	260,324	21,676	92,903	942,492	2,383,349
Other assets	1,411,121	1,411,121	-	-	-	-
Property and equipment, net	512,024	-	-	-	-	512,024
Total assets	81,088,378	32,342,450	6,355,962	3,814,175	8,291,626	30,284,165
Liabilities and Equity						
Due to banks	7,970,187	7,792,678	161,169	-	16,340	-
Customers' deposits	43,396,851	37,048,041	2,462,020	2,996,099	192,906	697,785
Short and medium term borrowings	16,610,194	284,836	102,318	628,994	944,187	14,649,859
Derivative financial instruments	806,033	53,593	36,958	23,819	140,981	550,682
Other liabilities	1,580,935	1,580,935	-	-	-	-
Equity	10,724,178	1,248,982	-	-	-	9,475,196
Total liabilities and equity	81,088,378	48,009,065	2,762,465	3,648,912	1,294,414	25,373,522
Liquidity gap	-	(15,666,615)	3,593,497	165,263	6,997,212	4,910,643
Cumulative liquidity gap	-	(15,666,615)	(12,073,118)	(11,907,855)	(4,910,643)	-

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

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Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

35 Foreign exchange risk

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

	2007 AED'000 equivalent long/(short)	2006 AED'000 equivalent long/(short)
US Dollar	**(1,346,463)**	(1,625,406)
Indian Rupees	**73,854**	61,164
Omani Riyal	**1,319**	2,239
Pound Sterling	**(1,803)**	20,960
Euro	**2,348**	(214,770)
Bahraini Dinar	**(445)**	(100)
Saudi Riyal	**(1,082)**	(86)
Japanese Yen	**(1,308)**	1,100
Australian Dollar	**(2,958)**	281
Swiss Frank	**899**	(270)
Others	**(121)**	343

Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

35 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2007:

	AED	US$	EUR	CHF	GBP	Other	Total
Assets							
Cash and balances with Central Banks	15,279,263	344,388	4	-	-	33,933	**15,657,588**
Deposits and balances due from banks	274,905	3,981,778	219,810	995	68,863	1,484,013	**6,030,364**
Trading securities	122,278	155	-	-	-	-	**122,433**
Loans and advances, net	47,470,978	25,256,533	832,842	185,888	11,544	1,918,297	**75,676,082**
Derivative financial instruments	282,168	2,518,008	31,356	-	60,848	175,862	**3,068,242**
Investment securities	364,230	2,166,767	208,943	-	-	228,248	**2,968,188**
Other assets	503,827	-	293,826	-	-	955,068	**1,752,721**
Total assets	**64,297,649**	**34,267,629**	**1,586,781**	**186,883**	**141,255**	**4,795,421**	**105,275,618**
Liabilities							
Due to banks	1,365,259	3,751,894	255,461	64,544	8,522	152,696	**5,598,376**
Customers' deposits	36,891,269	15,142,719	910,449	328,225	925,369	2,962,789	**57,160,820**
Short and medium term Borrowings	5,936,249	14,857,285	270,829	1,641,601	3,669,970	994,330	**27,370,264**
Derivative financial instruments	274,673	1,884,902	23,734	-	60,745	169,215	**2,413,269**
Other liabilities	1,498,504	680,525	14,996	22,635	42,717	-	**2,259,377**
Total liabilities	**45,965,954**	**36,317,325**	**1,475,469**	**2,057,005**	**4,707,323**	**4,279,030**	**94,802,106**
Off balance sheet items							
Letters of credit	2,330,703	2,037,672	339,622	12,046	4,738	1,169,149	**5,893,930**
Guarantees	8,274,515	5,094,112	535,594	3,518	33,028	819,273	**14,760,040**
Irrevocable commitments to extend credit	25,711,293	5,303,299	342,427	-	-	221,408	**31,578,427**
Credit default swaps	-	3,221,685	-	-	-	-	**3,221,685**
	31,316,511	15,656,768	1,217,643	15,564	37,766	2,209,830	**55,454,082**
Commitments for future capital expenditure	56,980	-	-	-	-	-	**56,980**
Commitments to invest in investment securities	-	93,580	-	-	-	-	**93,580**
Total off balance sheet items	**36,373,491**	**15,750,348**	**1,217,643**	**15,564**	**37,766**	**2,209,830**	**55,604,642**

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Notes to the consolidated financial statements

for the year ended
December 31, 2007
(continued)

5 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2006:

	AED	US$	EUR	CHF	GBP	Other	Total
Assets							
Cash and balances with Central Banks	1,642,122	237,516	-	-	-	18,819	1,898,457
Deposits and balances due from banks	116,705	9,527,891	10,233	251	2,320	407,809	10,065,209
Trading securities	77,012	618	-	-	-	-	77,630
Loans and advances, net	37,854,862	22,528,982	577,683	802	376,842	1,085,478	62,424,649
Derivative financial instruments	90,104	(4,830,795)	113,073	1,061,360	3,624,708	940,094	998,544
Investment securities	257,500	3,035,884	227,825	-	-	179,535	3,700,744
Other assets	905,946	253,098	9,238	17,521	117,140	108,178	1,411,121
Property and equipment, net	506,430	-	-	-	-	5,594	512,024
Total assets	41,450,681	30,753,194	938,052	1,079,934	4,121,010	2,745,507	81,088,378
Liabilities							
Due to banks	2,937,057	3,700,855	311,838	905	167,685	851,847	7,970,187
Customers' deposits	21,194,779	17,148,664	1,236,468	338	2,930,052	886,550	43,396,851
Short and medium term borrowings	1,365,000	9,761,180	106,664	1,061,360	3,595,592	720,398	16,610,194
Derivative financial instruments	57,270	436,624	6,398	-	29,116	276,625	806,033
Other liabilities	1,246,315	518,114	(219,583)	17,239	38,542	(19,692)	1,580,935
Total liabilities	26,800,421	31,565,437	1,441,785	1,079,842	6,760,987	2,715,728	70,364,200
Off balance sheet items							
Letters of credit	241,341	2,066,732	384,131	11,526	11,355	216,889	2,931,974
Guarantees	6,652,296	5,939,422	275,791	4,571	31,436	408,523	13,312,039
Irrevocable commitments to extend credit	19,226,099	2,426,347	121,209	-	-	-	21,773,655
Credit default swaps	-	1,153,322	-	-	-	-	1,153,322
	26,119,736	11,585,823	781,131	16,097	42,791	625,412	39,170,990
Commitments for future capital expenditure	53,152	-	-	-	-	-	53,152
Commitments to invest in investment securities	8,647	-	-	-	-	-	8,647
Total off balance sheet items	26,181,535	11,585,823	781,131	16,097	42,791	625,412	39,232,789

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

36 Market risk

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

Market price risk

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

Management of market risk

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

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Risk identification and classification

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

Market risk is broadly classified into Trading and Non-trading categories:

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

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

Trading risk

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

Non-trading risk

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

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

Risk measurement

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

- Non-statistical risk measures
- Sensitivity analysis

Non statistical risk measures

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

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

36 Market risk (continued)

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

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

Portfolio Sensitivity for Major Interest Rate Risk Currencies (Parallel Rate Shock) is analysed separately for the Bank's Trading and Non trading portfolio as follows:

Market risk – Trading portfolio

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

The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at December 31, 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap.

Interest rate risk

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

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2007	**5,557**	**(1,416)**	**11,860**	**37,041**
December 31, 2006	(24,912)	(16,959)	27,554	67,695

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

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2007	**(3,139)**	**3,389**	**(16,065)**	**(48,317)**
December 31, 2006	27,664	18,079	(29,209)	(71,429)

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Market risk – Trading portfolio (continued)

Currency wise

The following table depicts Portfolio Sensitivity for Foreign Exchange:

Price Shock in Percentage (AED '000)

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

Price Shock in Percentage (AED '000):

December 31, 2006		+10%	+5%	-5%	-10%
	AUD	(44)	(22)	22	44
	EUR	49	25	(25)	(49)
	GBP	-	-	-	-
	JPY	230	115	(115)	(230)
	USD	(10,882)	(5,700)	6,300	13,301

Market risk –Non trading portfolio

Interest rate risk

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

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

	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
		AED'000	AED'000
December 31, 2007	**+25**	**38,420**	**(33,292)**
	-25	**(38,420)**	**33,292**
December 31, 2006	+25	28,800	(15,609)
	-25	(28,800)	15,609

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Operational risk

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

Equity price risk

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

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

Capital management process

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

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

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

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

The Bank's regulatory capital is divided into two tiers:
a) Tier 1 Capital
b) Tier 2 Capital

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

37 Capital adequacy and capital management (continued)

Capital adequacy ratio

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended December 31, 2007 and 2006.

	2007 AED'000	2006 AED'000
Tier 1 capital		
Share capital	**4,000,000**	4,000,000
Statutory and legal reserves	**2,380,661**	1,983,157
General and contingency reserves	**2,150,000**	2,075,000
Proposed dividends	**1,210,000**	1,210,000
Retained earnings	**1,651,705**	1,342,892
Minority interests in equity of subsidiaries	**114,231**	65,800
	11,506,597	10,676,849
Tier 2 capital		
Subordinated floating rate notes (Note 15)	**1,469,200**	1,469,200
Cumulative change in fair values	**(94,854)**	47,329
Total qualifying capital	**1,374,346**	1,516,529
Total regulatory capital	**12,880,943**	12,193,378
Risk-weighted assets:		
On-balance sheet	**80,607,717**	65,815,021
Off-balance sheet	**15,077,265**	9,103,657
Total risk-weighted assets	**95,684,982**	74,918,678
Capital adequacy ratio	**13.46%**	16.28%

The capital adequacy ratio was above the minimum requirement of 10% stipulated by the Central Bank of United Arab Emirates as of December 31, 2007 and 2006.

Notes to the consolidated financial statements

for the year ended December 31, 2007 (continued)

38 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 74,311 thousand (2006 – AED 61,956 thousand) held in India are subject to the exchange control regulations of India.

39 Trust activities

As of December 31, 2007, the net asset value of the funds under the management of the Bank amounted to AED 1,980,805 thousand (2006 – AED 1,194,578 thousand).

40 Comparative figures

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

41 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 4, 2008.

Head Office & Branches Directory

Branches and Addresses in the UAE

Area	Branch Name	P.O. Box	Phone	Fax Number
Abu Dhabi	Salam	P.O BOX 2934 Abu Dhabi	02-6962222	02-6109772
	Tourist Club Area	P.O BOX 2800 Abu Dhabi	02-6946000	02-6109712
	Al Muroor	P.O BOX 939 Abu Dhabi	02-4447960	02-4444795
	GASCO	P.O BOX 48332 Abu Dhabi	02-6772362	02-6109797
	Corniche	P.O BOX 2054 Abu Dhabi	02-6275500	02-6260540
	Hamdan Street	P.O BOX 2832 Abu Dhabi	02-4067555	02-6320396
	Sh. Rashid Road	P.O BOX 25993 Abu Dhabi	02-4458288	02-4458499
	Khalidiya	P.O BOX 29923 Abu Dhabi	02-5016222	02-6109822
	Al Falah	P.O BOX 5154 Abu Dhabi	02-6213901	02-6109720
	Mussafah	P.O BOX 9331 Abu Dhabi	02-5544272	02-5544273
	Al Shahama	P.O BOX 76122 Abu Dhabi	02-5632255	02-5630035
	Baniyas Town	P.O BOX 11616 Abu Dhabi	02-5821550	02-5821007
	ICAD	P.O BOX 39260 Abu Dhabi	02-5500724	02-5500739
	All Raha Mall	P.O Box 109563 Abu Dhabi	02-5016222	02-6109807
Al Ain	Al Ain Main Branch	P.O BOX 15180 Abu Dhabi	03-7550000	02-6109775
	Khalifa Street	P.O BOX 1280 Abu Dhabi	03-7669999	02-6109739
	Al Ain Industrial Area	P.O BOX 24699 Abu Dhabi	03-7210009	02-6109819
	Al Wagan	P.O BOX 21879 Abu Dhabi	03-7351444	03-7351799
	Al Yahar	P.O BOX 81084 Abu Dhabi	03-7814000	03-7826600
	Al Hayer	P.O BOX 21112 Abu Dhabi	03-7321888	03-7322883
Dubai	Al Riggah Road	P.O BOX 5550 Dubai	04-2958888	04-2956632
	Deira	P.O BOX 1069 Dubai	04-6024100	02-6109790
	Al Qusais	P.O BOX 19678 Dubai	04-7058888	02-6109732
	Al Karama	P.O BOX 12808 Dubai	04-3345000	04-3348000
	Al Mina Road	P.O BOX 9286 Dubai	04-3984444	04-3982664
	Etihad	P.O BOX 37363 Dubai	04-3615151	02-6109735
	Mall of the Emirates	P.O BOX 72225 Dubai	04-3411001	02-6109732
	Jumeirah	P.O BOX 214031 Dubai	04-4069601	02-6109749
N.E	Ras Al Khaimah	P.O BOX 1633 Ras Al Khaimah	07-2332200	07-2332020
	Fujairah	P.O BOX 770 Fujairah	09-2223900	09-2224900
	Dibba	P.O BOX 13212 Fujairah	09-2446444	09-2444838
	Ajman	P.O BOX 1843 Ajman	06-7443444	06-7443300
Sharjah	Sharjah Main Branch	P.O BOX 4377 Sharjah	06-5737000	06-5722322
	Sharjah Industrial Area	P.O BOX 23657 Sharjah	06-5433300	06-5421285
	Buhaira	P.O BOX 66655 Sharjah	06-5566169	02-6109731
W.E	Zayed Town	P.O BOX 50013 Abu Dhabi	02-8846180	02-8847663
	Ruwais	P.O BOX 11851 Abu Dhabi	02-8775015	02-8774704
	Al Bayah	P.O BOX 76889 Abu Dhabi	02-8721300	02-8728124
	Gayathi	P.O BOX 77731 Abu Dhabi	02-8742155	02-8741626
India	Mumbai	P.O BOX 11248 Mumbai	(91) 2222855658	(91) 2222870686
	Bangalore	P.O BOX 5271 Bangalore	(91) 8025582000	(91) 8025582323