ABU DHABI COMMERCIAL BANK
Annual Report 2010

بنك أبوظبي التجاري
ADCB

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H.H. Sheikh Khalifa Bin Zayed Al Nayan

President of the United Arab Emirates

H.H. Sheikh Mohammed Bin Zayed Al Nayan

Crown Prince of Abu Dhabi

بنك أبوظبي التجاري
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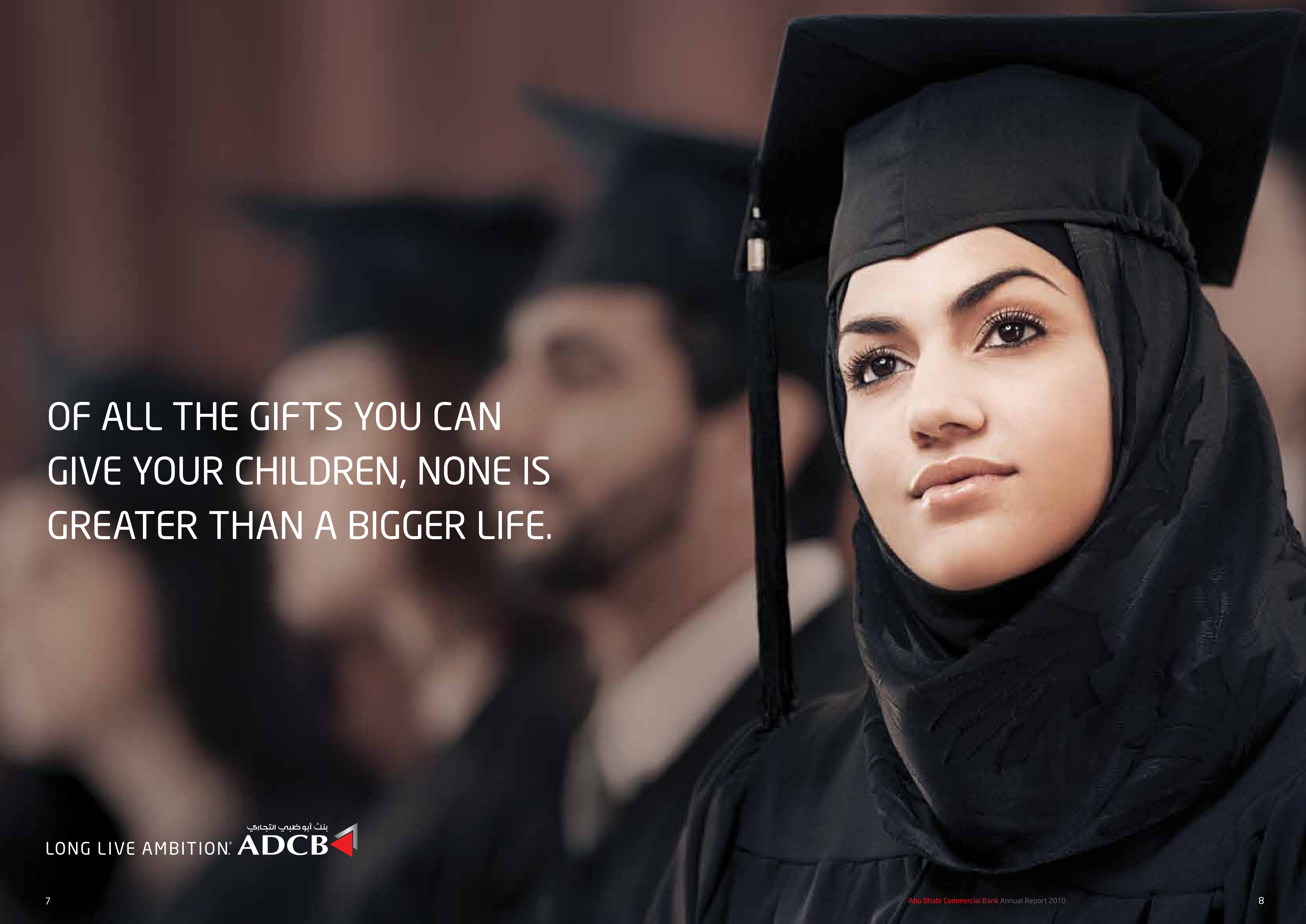
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GIVE YOUR CHILDREN, NONE IS
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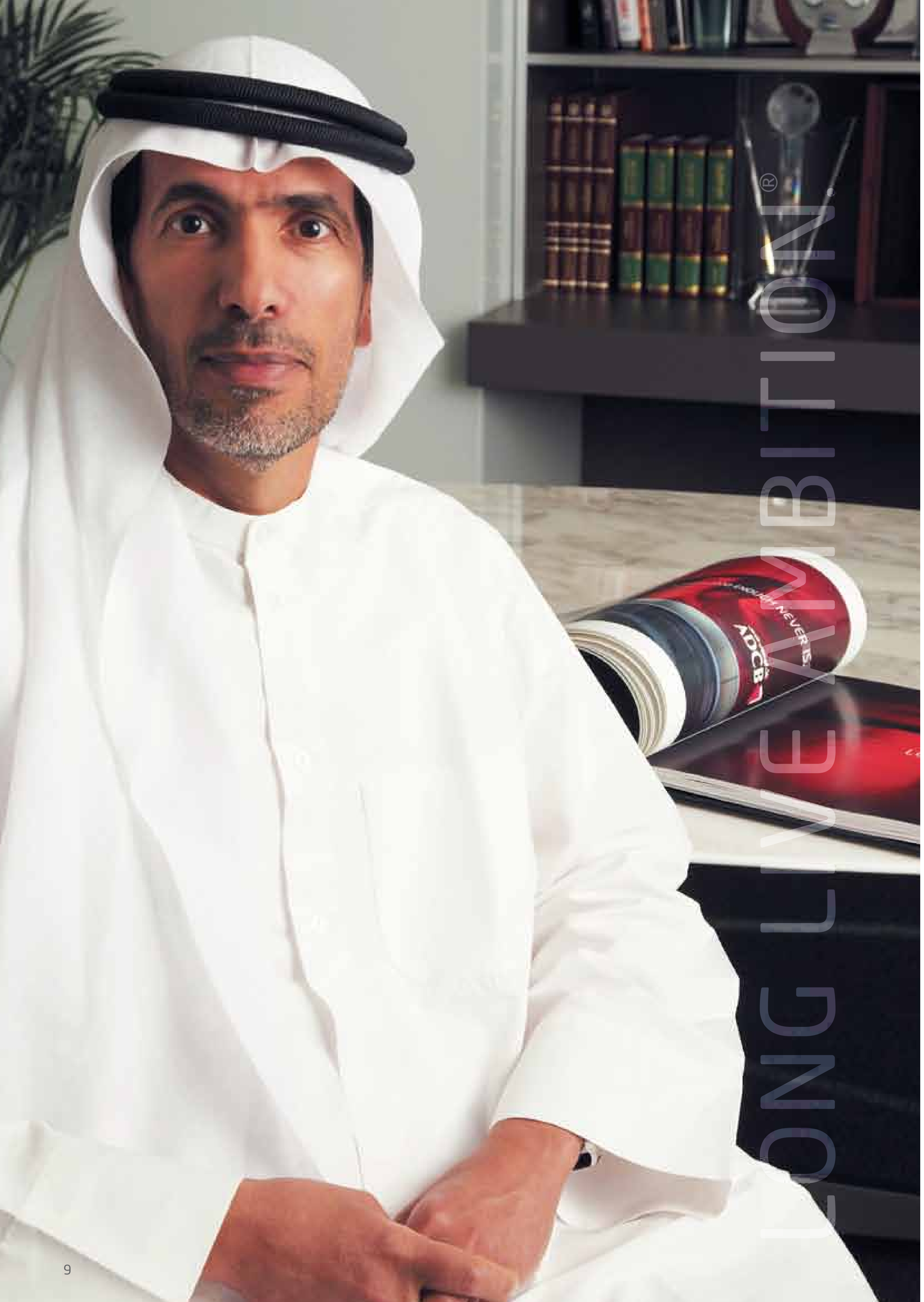

Chairman's Letter

On behalf of ADCB's Board of Directors, I am pleased to introduce ADCB's annual report for 2010. During 2010 the banking environment remained challenging in the UAE and the region. Nevertheless, ADCB delivered a robust performance and the Board was pleased that the Bank returned to profit. Whilst the difficult environment continued to impact profitability, the Bank delivered record operating and pre-provision profits, and achieved:

- Pre-provision profits increased to record levels, up 14% at AED3,687m.
- Operating income increased to record levels, up 12% at AED5,336m.
- Customer deposit growth of 23% (AED106bn) outpaced loan growth of 5% (AED123bn), in line with the strategy set by the Board in 2009.
- Loan to deposits ratio ended the year at 116%.
- Cost-to-income ratio reduced to 30.9%.
- Improved net interest margins.
- Net profits of AED391m, more than AED900m up from the previous year. These profits were achieved despite continued significant impairment provisions and re-structuring of the asset book.
- Acquisition of the UAE consumer banking businesses of RBS.
- Highly successful launch of a co-brand card with Etihad.
- ADCB ended the year with in excess of 550,000 customers.
- Several awards, including:
  - Best corporate governance in the UAE (World Finance),
  - Best Retail Bank in UAE (Asian Banker),
  - Best Retail Bank in the Gulf States (Asian Banker),
  - Banker Middle East Product Award for the BusinessEdge suite of products offered by the SME Division,
  - The Best SME Bank in MENA (Banker Middle East) and
  - Best Consumer Internet Bank in the UAE (Global Finance Magazine).

The most significant development in 2010 was the acquisition of the UAE consumer banking businesses of Royal Bank of Scotland; the acquisition deepened and extended ADCB's leading credit card, consumer and wealth management franchises.

At the end of 2010, the Board and management met to reconsider ADCB's strategy. Details of the strategy are set out in the "About ADCB" section of this report. The Board is confident that the strategy is suitable and appropriate to steer ADCB in its next phase of development; nevertheless the Board intends to revisit the strategy regularly in 2011. In particular, the Board believes that the strong efforts of itself and senior management during 2009 and 2010 have positioned the Bank to benefit strongly in the event that market conditions improve in 2011 and beyond.

I would like to express the sincerest gratitude and appreciation of ADCB and its Board for the continued support from government during 2010. The achievements set out above would not have been possible but for the wise leadership of his Highness Sheikh Khalifa bin Zayed Al Nahyan (President of UAE) and his Highness Sheikh Mohamed bin Zayed Al Nahyan (Crown Prince of Abu Dhabi). Thanks are also due to his Highness Sheikh Mansour bin Zayed, the Ministry of Finance, the UAE Central Bank, the Department of Finance and ADCB's majority shareholder, Abu Dhabi Investment Council.

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

Lastly I would like to thank ADCB's Board members, senior management and staff for their continued dedication and commitment.

Eissa Mohamed AlSuwaidi

Chairman ADCB


SUCCESS ISN'T ALWAYS
MEASURED BY THE LIFE
YOU BUILD FOR YOUSELF.
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Chief Executive Officer's Report

2010 was a year of measured growth for ADCB. After a difficult year in 2009, the Bank looked to solidify its position within the local banking market and added scale and momentum to its business divisions where appropriate.

The Bank succeeded in its mission by producing solid annual results in 2010:

- We announced record pre-provision profits, up 14%, at AED 3,687 million. Fourth quarter 2010 pre-provision profits crossed AED 1 billion for the first time and represented an increase of 22% over the same period in 2009. The strong growth in pre-provision profits was primarily driven by higher earnings from core operations, coupled with higher trading and investment income as well as increased earnings from associate and other income.
- Total operating income in 2010 reached a record level of AED 5,336 million, an increase of 12% over 2009. The solid growth in total operating income was mainly attributed to stronger contribution of net interest income which recorded an increase of 12% over 2009 reaching AED 3,682 million for the year.
- Customer deposits grew by 23% to AED 106 billion whilst the Bank successfully managed to keep its cost of funding stable and increase net interest margins by 6 basis points compared to net loan growth of 5% or AED 6.2 billion.
- The Bank continued to strengthen its balance sheet and execute its strategy to bring down the loans to deposit ratio, which ended the year at 116%, down from a high of 151% in March 2009.
- The cost control initiatives adopted by the Bank resulted in a progressive reduction in the cost-to-income ratio from 32.2% in 2009 to 30.9% in 2010.

A significant step in achieving its goals for the year, ADCB successfully acquired the UAE retail banking, wealth management and SME businesses of Royal Bank of Scotland PLC. The acquisition was one of the most significant developments in the UAE banking sector in 2010 and marked the first UAE acquisition of an international bank's franchise by a local bank. The acquisition resulted in substantial growth in our strategically important consumer banking business. The integration of the two businesses continues to remain on track with the fourth quarter results including performance figures for the acquired divisions.

To complement our performance, we also continued to succeed in the field of corporate governance. Following on from the Hawkamah-UAB award in 2009, ADCB won the World Finance Award (UK) for the best corporate governance in the UAE in 2010. This was then followed by the Asian Banker Excellence in Retail Financial Services Award for Best Retail Bank in UAE for the third year in a row and Best Retail Bank in the Gulf States.

The Bank also collected the Banker Middle East Product Awards 2010 for our BusinessEdge suite of products offered by the Small and Medium Enterprises (SME) Banking Division. The Best SME Bank in MENA at the Banker Middle East Industry Award 2010 and the Best Consumer Internet Bank in the UAE by Global Finance Magazine.

The Bank also remained committed to its Emiratisation strategy. ADCB's recruitment and development drive now supports over 1,000 UAE nationals, which totals 36% of all employees (excluding the recent acquisition), working for the Bank at the end of 2010.

Chief Executive Officer's Report (cont.)

On behalf of the Executive Management Team, I would like to express our sincere appreciation and gratitude to all of our shareholders and the Board of Directors for their support. I would also like to thank every single member of staff for their hard work as well as our customers for their ongoing loyalty and trust.

We enter 2011 with a clear vision, strategy and healthy capitalisation. The Bank has emerged from 2010 with improved business lines and strengthened partnerships across its operations and is well positioned and committed for continued success in the year ahead.

2010 PERFORMANCE HIGHLIGHTS

Net profit

A net profit of AED 391 million in 2010. Profit for the full year will be retained to maintain the capital base of the Bank.

Total operating income and net interest margins

Total operating income in 2010 reached a record level of AED 5,336 million, an increase of 12% over 2009.

Net interest margin increased by 6 basis points from 2.51% in 2009 to 2.57% in 2010.

Operating expenses

Operating expenses in 2010 were AED 1,649 million, 7% higher than 2009. The increase in the cost base was primarily attributable to the launch of new products such as the 'Above' co-branded Visa credit card through an alliance agreement with Etihad Airways and integration related expenses for the acquisition of the UAE retail banking, wealth management and SME businesses of The Royal Bank of Scotland PLC.

The cost control initiatives adopted by the Bank resulted in a progressive reduction in the cost-to-income ratio from 32.2% in 2009 to 30.9% in 2010.

Provision and impairment allowances

The net impairment allowances for 2010 were AED 3,287 million, 12% lower compared to 2009 at AED 3,753 million. Of this, AED 2,860 million (net) were provisioned for loans and advances. Provision for the investment portfolio was at AED 249 million and AED 178 million for the unfunded structured portfolio. The specific loan impairment provisions for the year include AED 1,055 million for one entity, Dubai World. The specific loan impairment provisions for the year also include AED 554 million for two troubled Saudi entities, the Saad and Al Gosaibi Groups, which have been taken in accordance with the Central Bank guidelines.

At the year end, the individual impairment balance stood at AED 4,653 million and collective impairment balance stood at AED 1,643 million.

The Non Performing Loan ratio of the Bank was 5.8% marginally higher than 5.2% as at 31 December 2009 and provision coverage ratio was 69.6% as at 31 December 2010 (2009 - 67.8%). Including the exposure to Dubai World, the Non Performing Loan ratio stood at 11.1% and provision coverage at 44.1%.

Pre-provision profits

Pre-provision profits for the full year were at a record level of AED 3,687 million, an increase of 14% over 2009. Fourth quarter 2010 pre-provision profits crossed AED 1 billion for the first time and represented an increase of 22% over the same period in 2009.

The strong growth in pre-provision profits was primarily driven by higher earnings from core operations, coupled with higher trading and investment income as well as increased earnings from associate and other income. Income from core operations represented a 10% increase year on year in 2010, mainly driven by higher interest income.

Trading and investment income in 2010 was up 39% mainly due to higher derivative and FX trading income.

Assets

Total assets aggregated to AED 178 billion as at 31 December 2010, representing controlled growth of 11% over 31 December 2009. Net customer loans as at 31 December 2010 increased to AED 123 billion, up 5% over 31 December 2009 and gross loans reached AED 129 billion, an increase of 7% over 31 December 2009.

Customer deposits

Aggregate customer deposits were AED 106 billion as at 31 December 2010, representing an increase of 23% over 31 December 2009.

Ratios

As at 31 December 2010, the Bank's loans to deposit ratio was 116% and the advances to stable resources ratio as defined by the UAE Central Bank remained flat at 91%.

Capital

As at 31 December 2010, the Bank's capital ratio was 16.65%, compared to 17.38% as at 31 December 2009 and above the minimum requirement of 12% determined by the Central Bank. The Bank's Tier I ratio stood at 11.97% as at 31 December 2010.

Mr. Ala'a Mohamed Atta Khalil Eraiqat

Chief Executive Officer ADCB


AMBITION.
IT GETS HASSAN, RAKESH AND FRANK AROUND THE SAME BOARDROOM TABLE.
In the UAE, we come from different places and backgrounds. But there's one thing we all share: the desire to do something great. At ADCB, we work quickly and efficiently to make sure your finances keep up with your aspirations. We help people turn possibility into greatness. Because that's what keeps us all moving forward.
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About ADCB

OVERVIEW

ADCB was incorporated on 1 July 1985 as a public joint stock company for an unlimited duration in the Emirate of Abu Dhabi, UAE. ADCB is registered under the UAE Federal Commercial Companies Law No. (8) of 1984 under registration number 4 and operates in the UAE under a banking licence issued by the Central Bank of the UAE. ADCB's registered address is P.O. Box 939, Abu Dhabi, United Arab Emirates (telephone: +971 2 696 2222).

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

As at 31 December 2010, ADCB operated 47 branches, 4 pay offices and 265 ATMs in the UAE; 4 new branches and 99 new ATMs were added during 2010. ADCB also operated 2 branches in India.

HISTORY AND RECENT DEVELOPMENTS

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

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

During 2010, ADCB operated two joint ventures with Australia's Macquarie Bank. One joint venture focused on infrastructure fund management. The other joint venture provided interest rate, currency and commodity derivatives products to clients in the GCC region. The joint ventures leveraged the specialised infrastructure fund management, financing and derivative capabilities of Macquarie Bank. During 2010, following fulfilment of its objectives, ADCB and Macquarie agreed to terminate the interest rate, currency and commodity derivative products joint venture with effect from 31 March 2010.

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

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

During 2010, ADCB acquired the UAE consumer banking businesses of Royal Bank of Scotland, comprising 3 branches and more than 250,000 customers.

CAPITAL STRUCTURE AND OWNERSHIP

As at 31 December 2010, ADCB's authorised and issued share capital was AED 4.81 billion. ADCB's shares have a nominal value of AED 1 each. As at 31 December 2010, the Government of Abu Dhabi indirectly held 64.84 per cent of ADCB's share capital.

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

In April 2008 ADCB issued mandatorily convertible bonds worth AED4.8 billion to four strategic investors, including investment institutions of the Government of Abu Dhabi. The bonds carry a coupon of EIBOR plus 1.5%, and are mandatorily convertible before April 2011. At issue the bonds carried a conversion price of AED7.35. This price automatically adjusted to AED6.11 as a result of ADCB's bonus issue in May 2008.

STRATEGY

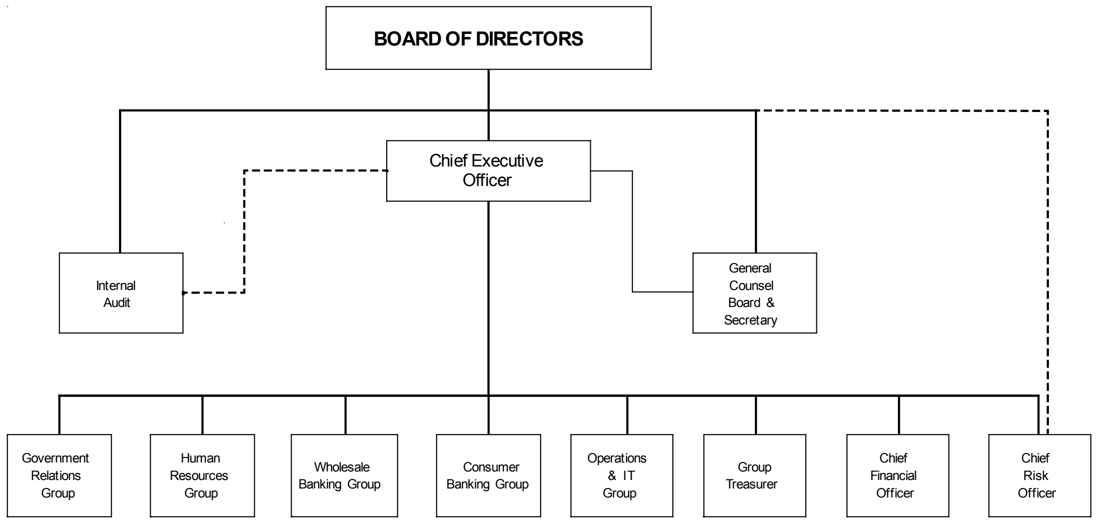
In late 2009 ADCB formulated a new three-year strategy to react to the new world order in financial markets. The 2010 - 2012 strategy is based around 5 key themes:

- Defend, maintain and grow ADCB's business in the UAE.
- Create balance sheet stability through liability growth.
- Develop a culture of service and operational excellence.
- Manage ADCB's risk to global best practice standards.
- Retain, attract and award the best talent in the UAE.

During 2010, ADCB's Board of Directors and senior management held a series of strategy meetings and affirmed the Bank's 2010 - 2012 strategy.

ORGANISATION

The following chart sets out the organisation structure of the Bank as at 31 December 2010:



Operationally, as at 31 December 2010, ADCB's three principal business groups were its Wholesale banking, Consumer banking and Treasury & Investments groups. Each of these groups is described in more detail below.

In addition, ADCB's subsidiary Abu Dhabi Commercial Properties LLC ("ADCP") conducted real estate management and services operations.

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

BUSINESS MODEL

ADCB's core business is divided into three groups:

- *Consumer Banking:* this group provides ADCB's consumer banking and wealth management services and manages ADCB's Islamic banking operations.
- *Wholesale Banking:* this group provides ADCB's business banking, strategic client coverage, cash management, trade finance, financial institutions, corporate finance and investment banking services. The group is also responsible for ADCB's Indian branches.
- *Treasury & Investments:* this group manages ADCB's commercial treasury operations, investment portfolio and interest rate, currency and commodity derivatives business.

Consumer Banking Group

The consumer banking group provides consumer banking and wealth management products and services to ADCB's customers and manages ADCB's Islamic banking operations. The group comprises the retail banking, private banking, wealth management and Islamic banking divisions.

ADCB's retail banking product development and distribution channels are aimed at two distinct segments: mass affluent customers and mass retail customers.

The wealth management division targets high net worth customers and provides customised services and products. The wealth management division also provides third party bank assurance products, third party investment products, portfolio advisory services, portfolio management services and brokerage services.

ADCB's Islamic banking business is managed under the "ADCB Meethaq" brand, which is the common brand under which all retail and corporate Shari'ah compliant products and services of ADCB are offered to ADCB's customers. The Islamic banking business is regulated by the UAE Central Bank and is overseen by an independent Shari'ah supervisory board. Further details about the governance of ADCB Meethaq are in the "Corporate Governance" section of this report.

Wholesale Banking Group

The wholesale banking group comprises the following divisions: business banking, transactional banking, investment banking, corporate finance, strategic clients and financial institutions.

This group provides financial, transactional (including trade finance), capital markets and advisory services to government, quasi-government, local and regional corporates and financial institutions, primarily in the GCC region. The group also manages ADCB's Indian operations. ADCB has two branches in India, located in Mumbai and Bangalore. These branches primarily provide corporate banking products and services, including asset liability and trade finance products, to ADCB's Indian and UAE corporate clients.

The product range includes varied financing instruments, transaction banking facilities, cash management, trade finance, capital markets and financial advisory services, structuring, underwriting and syndicating capabilities, infrastructure financing and structured asset financing.

Treasury & Investments Group

The treasury & investments group offers foreign exchange services to professional and corporate customers as well as interest rate, currency and commodity derivative products.

This group is responsible for monitoring ADCB's cash flow and liquidity as well as its foreign exchange and interest rate risks.

The treasury & investments group also manages ADCB's investment portfolio, which includes investments in equity, debt securities and funds.

Other material business interests

ADCP, a 100 per cent subsidiary of ADCB, provides facility management, vendor management and real estate services, advice and management to clients, including ADCB. In particular, ADCP manages the "Khalifa Committee" portfolio, which comprises more than 55,000 real estate units in Abu Dhabi.

ADCB's brokerage services, real estate management and services operations, certain Islamic products and specialised investment funds are conducted through ADCB's subsidiaries, including ADCP, Al Dhabi Brokerage LLC and Abu Dhabi Commercial Islamic Finance PSC.

During 2008, ADCB acquired a 25 per cent interest in RHB Capital Berhad, which owns a leading Malaysian bank and other Malaysian financial services businesses. On 1 October 2010, ADCB acquired the retail banking business of Royal Bank of Scotland in the UAE.

EMPLOYEES AND REMUNERATION

As at 31 December 2010, ADCB employed 3,824 members of staff, of which 932 were acquired through ADCB's acquisition of the UAE retail businesses of Royal Bank of Scotland during 2010.

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

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

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

Further details about these schemes, and awards made under them in 2010, are in the "Corporate Governance" section of this report.

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

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

Corporate Governance Report

ADCB'S BOARD OF DIRECTORS

H.E. Eissa Mohamed Ghanem AlSuwaidi

Chairman

Bachelor in Economics
(Northeastern University, USA)

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

External appointments:

Executive Director
Abu Dhabi Investment Council

Board Member
Abu Dhabi National Oil Company for Distribution

Board Member
International Petroleum Investment Company

Board Member
Abu Dhabi Fund for Development

Board Member
Emirates Investment Authority

Board Member
Emirates Integrated Telecommunications Company ("du")

Mr. Mohamed Sultan Ghannoum AlHameli

Vice Chairman

Bachelor in Finance
(Boston University, USA)

General Manager Programme
(Harvard Business School)

Chartered Financial Analyst
(CFA Institute)

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

External appointments:

Executive Director
Abu Dhabi Finance Department

Board Member
Abu Dhabi Ports Co.

Board Member
Abu Dhabi Health Services Co.

Board Member
Abu Dhabi Health Authority

Board Member
Abu Dhabi Development Fund

Board Member
Abu Dhabi Public Service Co. (Musanada)

Board Member
Abu Dhabi Airports Co.

Board Member
Social Welfare & Minor Affairs Foundation

Mr. Ala'a Mohamed Atta Khalil Eraiqat

Executive Director, CEO

Mr. Eraiqat has held senior positions within Citibank, Standard Chartered Bank, and other financial institutions. He is a certified trainer in sales, investments, marketing and leadership.

Mr. Eraiqat received the Asian Banker Promising Young Banker Award for the Gulf Region in 2007 on 16 March 2008. In 2009, he was chosen by Arabian Business as one of GCC's Most Admired Executives.

External appointments:

Board Member
Abu Dhabi National Hotels PJSC

Board Member
Gulf Capital PJSC

Board Member
MasterCard Asia/Pacific, Middle East & Africa Regional Advisory Board

Member
Mubadala Infrastructure Partners Advisory Board

Member
The Honorary Board of the Al Ain Club

Mr. Mohamed Darwish AlKhoori

Bachelor in Business Administration
(Siena Heights College, Michigan)

General Manager Programme
(Harvard Business School)

Mr. AlKhoori has 21 years of experience in asset management. In January 2008 Mr. AlKhoori was appointed as the Executive Director of ADIA's Internal Equities Department.

In May 2004, Mr. AlKhoori was nominated by the Government of Abu Dhabi to join the ADCB Board of Directors and he was subsequently, in April 2006, elected by ADCB shareholders to act as an ADCB Director. In March 2009, he was again nominated by the Government of Abu Dhabi to join the ADCB Board of Directors.

External appointments:

Vice Chairman of the Board of Directors
Oman & Emirates Investment Holding Company

Chairman of the Executive Committee
Oman & Emirates Investment Holding Company

Board Member
The Financial Corporation Company

Mr. Abdulla Khalil AlMutawa

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

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

External appointments:

General Manager
Office of Sheikh Suroor Bin Mohammed Al Nahyan

Board Member
Al Falah Exchange, UAE

Board Member
Bank Al Falah, Pakistan

Board Member
Wateen Telecom, Pakistan

Board Member
National Banks Association, UAE

Mr. Salem Mohamed Athaith Al Ameri

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

Mr. Al Ameri is currently the Executive Director of the Private Equity Department within the Abu Dhabi Investment Council (since May 2007).

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

External appointments:

Executive Director
Abu Dhabi Investment Council

Board Member
Abu Dhabi Investment Company

Mr. Mohamed Esmaeel AlFahim

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

Mr. AlFahim is a prominent UAE National, employed with the Abu Dhabi Investment Authority and holding a senior position since 1987.

Mr. AlFahim was elected by ADCB shareholders to join ADCB's Board of Directors in March 2009.

External appointments:

Board Member
Abu Dhabi Islamic Financial Services (subsidiary of Abu Dhabi Islamic Bank)

Board Member
General Authority of Islamic Affairs and Endowments (Auwqaf Investment Board)

Board Member
Takaful

Board Member
Baniyas Investment

Board Member
Al Fajer Investment

Board Member
Bloom Real Estate

Board Member
Green Crescent Insurance

Mr. Mohamed Ali AlDhaheri

Bachelor of Business Administration
(International University of America)

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

External appointments:

Accounting & Financial Services
Abu Dhabi Investment Council

Board Member
Abu Dhabi Investment Company

Board Member
Al Hilal Takaful

Board Member
RHB Bank Berhad

Board Member
RHB Capital Berhad

Board Member
Securities & Commodities Authority

Sheikh Sultan Bin Suroor AlDhahiri

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

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

External appointments:

Chief Executive Officer
AlDhaheri Group

Board Member
Abu Dhabi National Tourism and Hotels Company

Board Member
Al Khazna Insurance Company

Mr. Khalid Deemas AlSuwaidi

Master of Business Administration, minor in Management Information Systems and Strategic Planning
(Widener University, USA)

Bachelor of Science/Computer Information Systems
(Bethune Cookman College, USA)

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

External appointments:

Chief Executive Officer
Das Holding

Board Member
Takaful

Chairman
United Tina

Board Member
Al Dar Financial Securities

Vice Chairman
Manazel Real Estate Company

Board Member
Citiscape Company

Chairman
Emirates Morocco Company

Board Member
Abu Dhabi Financial Services Company

Mr. 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, moving from Portfolio Manager to Head of Investments in the asset management department. In 1982, he joined ADIA as the Regional Manager for Europe before being appointed Senior Fund Manager. He returned to Paribas in 1987 to become the first Chief Executive and Chief Investment Officer of newly created Paribas Asset Management. In 1992 he returned to ADIA as Regional Manager for Europe and was subsequently appointed Advisor and then Senior Advisor for Investment Strategy. He is currently the head of the Strategy Unit at H.H. the Managing Director's Office, ADIA.

In 2007, the President of the French Republic made Mr. Villain "Chevalier de la Legion d'Honneur".

In May 2004 Mr. Villain was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors

External appointments:

Head of Strategy Unit
H.H. the Managing Director's Office, ADIA

Member
ADIA Strategy Committee

Chairman
ADIA Compensation and Benefits Working Group

Member
Investment Committee of the Abu Dhabi Fund for Retirement and Benefits

Governor
British School Al Khubairat, Abu Dhabi

Simon Copleston

Board Secretary & General Counsel

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

THE BOARD

Role of the Board

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

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

The Board has adopted a rolling agenda to ensure that each of its responsibilities is satisfied on a periodic basis. During 2010, amongst other items, the Board continued to focus on risk management, financial performance, financial planning and control and strategy. The Board considers other agenda items on an 'as required' basis.

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

Structure and composition

The Board of Directors comprises 11 Directors. 10 of the Directors are non-executive Directors elected or appointed by the Bank's shareholders. The CEO also serves on the Board as an Executive Director. In accordance with the Federal Commercial Companies Law and the Bank's articles of association, the majority of the Board are UAE nationals. Collectively, the Board possesses knowledge, experience and skills appropriate for the Bank.

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

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

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

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

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

Appointment, retirement and re-election

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

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

Under the Bank's articles of association, Abu Dhabi Investment Council has the right to elect such number of Directors as is proportionate to the percentage of the Bank's share capital it holds (as at 31 December 2010, 64.84%). As at 31 December 2010, the Directors nominated by Abu Dhabi Investment Council were: Mr Eissa AlSuwaidi (Chairman), Mr Mohamed AlHameli, Mr Salem Al Ameri, Mr Mohammed AlDhaheri, Mr Jean-Paul Villain, Mr. Mohamed AlKhoori and Mr. Khalid AlSuwaidi. As at 31 December 2010, the Bank's Directors elected by other shareholders were Mr Abdulla AlMutawa, Sheikh Sultan AlDhahiri and Mr Mohamed AlFahim.

The CEO is an Executive Director of ADCB in accordance with the Bank's articles of association, and as such is not eligible for election.

Directors' independence

The Bank is committed to sound corporate governance practices. In particular, the Bank recognizes the damage that could be created by conflicts of interest at Board level, whether disclosed or undisclosed. Therefore, although banks were exempted from the mandatory application of the SCA's Code of Corporate Governance, the Bank continues to refer to the SCA Code as well as international best practices, with regard to Directors' independence.

Accordingly, the Bank has considered the independence of its directors by reference to the SCA Code and international best practices. The Bank considers that, as at 31 December 2010, the Bank's independent Directors represent more than 1/3 of the Board; and throughout 2010 the majority of members of the Board Audit & Compliance Committee and the Board Nomination, Compensation & HR Committee were independent.

For these purposes, the Bank has determined that Board members employed by the Government of Abu Dhabi's Department of Finance or Abu Dhabi Investment Authority are sufficiently removed from the Bank to enable classification as independent.

Induction and professional development

Tailored induction programmes are arranged for all newly appointed Directors. The programme comprises a comprehensive Directors' induction pack, meetings with other Directors and senior management, as well as comprehensive guidance on the duties and responsibilities of Directors, the Bank's policies and procedures and relevant legal and regulatory requirements. In 2010, Directors were provided with opportunities to update and develop their skills and knowledge through external seminars, regular presentations from senior management, and relevant reading materials. In addition, the Board Secretariat worked with various external providers to source suitable tailored training sessions.

Matters reserved to the Board

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

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

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

Internal controls – setting and monitoring internal controls.

Risk – setting the Bank's risk strategies and appetite and monitoring the Bank's approach to material risks.

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

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

CEO – annual evaluation and supervision of the CEO.

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

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

THE BOARD (cont.)

Meetings

The Board of Directors meets regularly and Directors receive information between meetings about the activities of Board and management committees and developments in the Bank's business. There were 8 Board meetings in 2010.

The table that follows gives details of each Director's attendance at meetings of the Board and the Board Committees in 2010.

Information Dissemination

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

Board papers are delivered at least 3 business days before each Board meeting. The Board Secretariat actively engages with the Chairman, Committee Chairman and management to ensure that agendas are appropriate and meetings are effective.

Board membership and attendance

Name	Status	Board		Audit & Compliance Committee		Corporate Governance Committee		Risk & Credit Committee		Nomination, Compensation & HR Committee	
		Meetings: 8		Meetings: 10		Meetings: 4		Meetings: 30		Meetings: 5	
Abdulla AlMutawa	Director [3]	•	8			•	4	•	28		
Ala'a Eraiqat	Director	•	8								
Eissa AlSuwaidi	Director [2,3]	C	8					C	27	•	5
Jean Paul Villain	Director [2,3]	•	8					•	16		
Khalid Deemas AlSuwaidi	Director [2,3]	•	8	•	9					•	4
Mohammed Ali AlDhaheri	Director [1,2]	•	5	•	7					•	5
Mohamed AlFahim	Director [3]	•	5			•	4				
Mohd Sultan AlHameli	Director [1,2]	VC	7					•	20	C	5
Mohamed Darwish AlKhoori	Director [2,3]	•	7	C	10	•	3				
Salem Mohd Al Ameri	Director [1,2]	•	7			C	4	•	23		
Sheikh Sultan AlDhahiri	Director [3]	•	3	•	4						

Key

C	Chairman
VC	Vice Chairman
•	Member
1	Current term commenced on 31 March 2010 (3 years)
2	Nominated by Abu Dhabi Investment Council
3	Term commenced on 31 March 2009

Board Committees

The Board has established four Board Committees to assist the Board in carrying out its functions:

1. Audit & Compliance Committee
2. Corporate Governance Committee
3. Nomination, Compensation & HR Committee
4. Risk & Credit Committee

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

The members and chairmen of the Board's Committees are reviewed on a regular basis to ensure suitability and compliance with other requirements, and rotated as needed. In particular, the Bank adheres to the local and international best practices of corporate governance regarding inclusion of independent Directors as chairman and members of the Audit & Compliance Committee and the Nomination, Compensation & HR Committee.

1. Audit & Compliance Committee

Mohamed AlKhoori (Chairman)
Khalid Deemas AlSuwaidi
Sheikh Sultan AlDhahiri
Mohamed AlDhaheri

Secretary: Rami Raslan

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

- the integrity of the Bank's financial statements;
- the qualifications, independence, performance and remuneration of the Bank's external auditors;
- the qualifications, independence and performance of the Bank's internal audit department;
- the Bank's compliance with legal and regulatory requirements and the Bank's internal policies; and
- the Bank's internal controls, including controls over financial reporting and disclosure.

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

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

The Audit & Compliance Committee's terms of reference are available at www.adcb.com/about us/corporate governance.

Statement from the Chairman of the Audit & Compliance Committee

During 2010, the Audit & Compliance Committee (the "Committee") was comprised of four non-executive Directors, the majority of whom were considered by the Bank to be independent. The Chairman of the Committee was an independent Director with relevant qualifications and experience in finance.

The Committee held 10 meetings in 2010, during which the Committee worked on the following matters:

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

The Committee regularly met separately with the external auditor and internal auditors in the absence of the Bank's management.

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

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

2. Corporate Governance Committee

Salem Al Ameri (Chairman)
Mohamed AlKhoori
Abdulla AlMutawa
Mohamed AlFahim

Secretary: Sonya Santolin

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

- development of corporate governance procedures and best practices within the Bank;
- compliance with regulatory requirements relating to corporate governance;
- public reporting on corporate governance matters;
- overseeing the annual Board evaluation process, and implementation of recommendations arising from that process; and
- ensuring compliance with the Bank's Code of Corporate Governance.

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

Statement from the Chairman of the Corporate Governance Committee

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

In 2010, the Bank was exempted from the application of SCA's Code of Corporate Governance. Notwithstanding the exemption, the Committee continued to seek guidance from the SCA Code on local best practices, as well as to consider international best practices in corporate governance.

The Committee held 3 meetings over the course of 2010. Amongst other things, in 2010 the Corporate Governance Committee worked on the following matters:

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

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

The Committee considers that positive progress was made during 2010 in the implementation of the Bank's corporate governance initiatives. The Bank's initiatives were recognized by the World Finance award for corporate governance, which named ADCB's governance as "Best in UAE."

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

3. Nomination, Compensation & HR Committee

Mohamed AlHameli (Chairman)
Eissa AlSuwaidi
Mohamed AlDhaheri
Khalid Deemas AlSuwaidi

Secretary: Sonya Santolin

The Nomination, Compensation & HR Committee is responsible for:

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

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

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

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

Statement from the Chairman of the Nomination, Compensation & HR Committee

During 2010, the Nomination, Compensation & HR Committee met 5 times and considered the following matters:

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

Remuneration and incentive rewards were designed to be performance-target based, to align with shareholders' interests and best practices from a governance perspective and to ensure effective recruitment, retention and development of staff.

Mohamed AlHameli,
Chairman of the Board's Nomination, Compensation & HR Committee

4. Risk & Credit Committee

Eissa AlSuwaidi (Chairman)
Mohamed AlHameli
Jean-Paul Villain
Abdulla AlMutawa
Salem Al Ameri

Secretary: Rami Raslan

The Risk & Credit Committee is responsible for:

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

The Board Risk & Credit Committee may delegate certain of its responsibilities to management through the Management Executive Committee as it deems appropriate. During 2010, the Board delegated certain credit and lending authorities to management, at a level that the Committee considered to be reasonable and prudent. In making such delegations, the Board's aim was to refocus its attention on risk (including risk strategy and policy) issues, whilst retaining authority to approve credit and lending decisions above certain thresholds.

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

Statement from the Chairman of the Risk & Credit Committee

During 2010, the Risk & Credit Committee (the "Committee") comprised of five non-executive Directors.

As a result of the delegation of certain powers of the Committee to management, the Committee held 30 meetings in 2010, 4 of which were focused solely on risk strategy and policy issues. The Board's aim in making such delegations was to enable the Committee to focus its attention on risk (including risk strategy and policy) issues, whilst retaining authority over credit and lending decisions above certain thresholds. The Committee oversaw management's administration of the Bank's credit portfolio, including management's responses to trends in credit risk, credit concentration and asset quality, and received and reviewed reports from senior management (and appropriate management committees and credit units) regarding compliance with applicable credit-risk related policies, procedures and tolerances.

Over the course of 2010, the Committee considered a wide range of matters, from credit commitments to risk policies, strategies and new products, with increasing emphasis on risk strategy and policy issues. In particular, the Committee:

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

Throughout 2010 the Committee conducted risk strategy and policy meetings on a more frequent basis (4 meetings focused solely on risk strategy and policy issues, with the objective of discussing and reviewing strategies, policies, frameworks, models and procedures that lead to the identification, measurement, reporting and mitigation of material risks).

The Committee considers that it made positive progress during 2010 towards meeting its responsibilities.

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

Performance evaluations

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

The 2010 performance evaluation process was led by the Chairman, supported by the Board Secretary. The Bank's policy is to retain an external consultant every 3 years to ensure objectivity in the performance evaluation process. As an external consultant was retained during 2009, in 2010 the performance evaluation was conducted in-house, utilizing previous experience that was learned from previous evaluations. Any necessary changes identified by the 2010 performance evaluation will be implemented during 2011.

Related-party transactions

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

The Bank's policy is to, as far as possible, only engage in transactions with related parties (including Directors) on arm's length terms.

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

Conflicts of interest

The Board maintains awareness of the other commitments of its Directors and senior management. During 2010, ADCB implemented a Directors' Conflicts of Interest Policy which can be found at the Bank's corporate governance web pages at www.adcb.com/aboutus/corporate governance.

As at 31 December 2010, and as a result of written declarations submitted by each of the Board members, the Board was satisfied that the other commitments of the Directors and senior management do not conflict with their duties.

DIRECTORS' REMUNERATION AND INTERESTS IN THE BANK'S SHARES

Remuneration policy

Directors' remuneration is set annually by the Board following delegation from the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & HR Committee prior to obtaining Board and, if necessary, shareholder approvals.

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

Remuneration

The Directors' fees paid during 2010 (for the year 2009) were:

	Directors' fees (AED per annum)	Special fees for attendance at Board Committee meetings (other than the Audit & Compliance Committee)	Special fees for attendance at Audit & Compliance Committee meetings
Chairman of Board	nil [1]	Chairman – 5,000	Chairman – 7,500
Director	nil [2]	Member – 4,000	Member – 6,000

Directors' interests in the Bank's shares

Name	Shareholding at 1 January 2010	Shareholding at 31 December 2010	Change in Shareholding
Abdulla AlMutawa	2,347,277	2,347,277	0
Ala'a Eraiqat	476,693[2]	1,166,348[3]	689,655
Eissa AlSuwaidi	0	0	0
Jean Paul Villain	6,012	6,012	0
Khalid Deemas AlSuwaidi	0	0	0
Mohammed Ali AlDhaheri	0	0	0
Mohamed AlFahim	0	0	0
Mohd Sultan AlHameli	0	0	0
Mohamed Darwish AlKhoori	837,325	730,000	(107,325)
Salem Mohd Al Ameri	0	0	0
Sheikh Sultan AlDhahiri	10,000	55,000	45,000

Other benefits

As at 31 December 2010, the Bank's Directors were not eligible for any bonus, long term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

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

It has been the Bank's historical practice to grant gifts to Directors on an annual basis. The gifts are generally immaterial in value in the context of the Bank's overall financial position.

[1]As the Bank did not achieve any net profits in the 2009 year, pursuant to federal laws the Directors were not entitled to receive Board fees for the year.
[2]Restricted units in the Bank's LTIP scheme vesting on 31 December 2010.
[3]Of which (a) 476,693 were restricted units in the Bank's LTIP scheme vesting on 31 December 2010, and (b) 689,655 were restricted units in the Bank's LTIP scheme vesting on 31 December 2012,

DIVIDEND POLICY

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

In determining the Bank's dividend payout for a particular year, the Board of Directors considers a variety of factors including the Bank's outlook for earnings growth, liquidity requirements, capital expenditure requirements, cash flow from operations, acquisition and business expansion strategy, debt position, capital position and capital adequacy rules. The Bank seeks to adopt a progressive approach to dividend payments, subject to the foregoing considerations and also subject to prescribed statutory limitations regarding the amount available for distribution. In particular, as required by UAE laws, the Bank's articles of association (Article 82) specify that the Bank's net annual profits shall, after deduction of general expenses and other costs, be distributed as follows: (a) 10% will be deducted and allocated to a statutory reserve account (b) a further percentage shall be deducted from the profits and allocated to any established voluntary reserve account (c) not less than 5% shall be distributed to shareholders (d) a maximum of 10% of net profit shall be allocated as remuneration for the Board, but only after approval of the General Assembly, and (e) the remaining profits shall be retained or distributed to shareholders as the Board shall recommend.

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

The Board of Directors has not recommended the payment of any dividend for the 2010 year.

INTERNAL CONTROLS

It is the responsibility of Bank's Board of Directors to:

- ensure that effective measures are in place to safeguard the Bank's assets;
- ensure proper accounting records and reliable financial information by procedures designed to avoid or reduce risks and ensure compliance with applicable laws and regulations;
- ensure that an adequate and effective system of internal controls and procedures is established and maintained; and
- evaluate the effectiveness of the Bank's internal control system, identifying control objectives, reviewing significant control policies and establishing relevant control procedures.

Control activities are closely monitored across the Bank by the Bank's internal audit function, working independently of the management. In addition, the risk management and compliance functions monitor control activities on an ongoing basis. All three functions cover all banking activities in general and key risk areas in particular. The Board Audit & Compliance Committee reviews audit reports periodically and ensures that management resolves/addresses weakness identified, mitigates risks identified, implements the policies and procedures effectively, and otherwise safeguards the Bank & its shareholders' interest.

While the Board Audit & Compliance Committee oversees and reviews the Bank's compliance policies and their implementation, the Bank's compliance group, which reports to the Chief Risk Officer, is responsible for implementing, monitoring and ensuring compliance with local regulatory and statutory requirements. Compliance with anti-money laundering procedures and internal training in such procedures is also monitored and implemented by the Bank's compliance group. In 2010 particular emphasis was given to embedding an enhanced culture of compliance through the development of compliance systems and policy infrastructure. There was also an increased focus on regulatory risk management during 2010. The group compliance function was strengthened by way of organization structure and staff skill sets. This has led to enhancement of policies, procedures and systems for an overall improved compliance discipline, particularly in the areas of anti-money laundering, counter terrorist financing and sanctions compliance procedures. As such, regulatory reporting and engagement increased considerably over the period. Various training initiatives during the year also resulted in a heightened compliance awareness across the organization.

The management, under the supervision of the Board, is responsible for establishing and maintaining an adequate internal control system, and for reviewing the adequacy and integrity of that system on a regular basis. The system of internal control is reviewed, revised and improved by management on an ongoing basis with the aim of identifying risks and managing them efficiently, effectively, and economically.

INTERNAL CONTROLS (cont.)

All internal control systems, no matter how well designed, have inherent limitations. Because of those inherent limitations, internal controls may not prevent or detect all risks. Accordingly, the system of internal control is designed to manage risk to a reasonable level but cannot be expected to eliminate risks entirely. It can therefore only provide reasonable but not absolute assurance of effectiveness. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in the Bank, economic or other conditions, or that the degree of compliance with policies or procedures may deteriorate.

In 2010, the Board of Directors, through the Board Audit & Compliance Committee, conducted a review of the effectiveness of the Bank's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. The Board Audit & Compliance Committee has received confirmation that the management has taken or is taking the necessary action to remedy any weaknesses identified.

Audit arrangements

The external auditor is appointed annually. At the 2010 Annual General Assembly, Deloitte & Touché was appointed as the external auditor of the Bank.

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

- No audit firm may be appointed for more than 7 consecutive years without shareholders' approval.
- No individual audit partner may be responsible for the audit for more than 5 consecutive years.
- The Committee will make recommendations on the rotation of the external audit firm, or of the partner of the firm in charge of the Bank's audit, to ensure the independence of the external auditors.
- Without the consent of the Committee, the external auditor may not carry out any additional work for the Bank which is not part of the audit program.

The Bank has complied with local rules and regulations as well as international best practices governing the appointment of and carrying out of non-audit work by the auditor.

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

The Bank has complied with best practices in governance the appointment of and carrying out of non-audit work by the Auditor.

In 2010, the external auditor's fees, approved by the shareholders at the annual general meeting, totalled AED 1,922,680. Fees for non-audit work performed by audit firms during 2010 were AED 3.692,626. Non-audit work performed included professional services in connection with comfort letter for the Bank's GMTN programme, EMTN update, professional advice, impairment re-testing, IFRS gap analysis and recost, and Indian tax consultancy services

Internal audits

The internal audit group (IAG) is responsible to evaluate the effectiveness and efficiency of ADCB's network of governance, risk management, and control processes, as designed and represented by management.

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

IAG performs its function in accordance with a risk-based audit methodology, and covers all of the Bank's units. The frequency of audits carried out with respect to each unit of the Bank depends on evaluation of activity/unit's inherent risk and related control risk evaluation. Audits are conducted as per a flexible annual audit plan prepared by IAG using appropriate risk based methodology, which is approved by the Audit & Compliance Committee.

The Head of IAG reports functionally to the Audit & Compliance Committee and administratively to the Chief Executive Officer.

Regulation and supervision

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

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

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

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

4. As an Institution in which the government of Abu Dhabi's share is not less than 50%, the Bank is subject to audits by Abu Dhabi Accountability Authority which examine the efficiency and effectiveness of the financial and operational activities of the Bank.

MANAGEMENT COMMITTEES

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

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

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

Other management committees included the IT Steering Committee, the Assets & Liabilities Committee, the Management Risk & Credit Committee, the Senior Management Committee and the Recoveries Committee. Separate working groups are established by the MEC on an "as required" basis. All management committees report to the MEC. The MEC has full authority to review and reorganize the composition and terms of reference of the management committees and other working groups.

MANAGEMENT REMUNERATION AND INCENTIVES

Guiding principles

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

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

Incentive plans and awards – ERP

The Bank established an Executive Reward Program (ERP) in 2006. The objective of the ERP is to reward key members of the Bank's management where the Bank achieves net profit targets. Any cash rewards paid to eligible participants are subject to a 3-year vesting period. In view of the Bank's performance during in 2009, no award was made under the ERP in 2010 (for 2009).

The Bank's Board has resolved to re-examine the ERP scheme in 2011, with particular reference to the suitability of net profit targets in the context of evolving best practices in remuneration.

Incentive plans awards – LTIP

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

MANAGEMENT REMUNERATION AND INCENTIVES (cont.)

Given that in 2009 no general salary increments or ERP payments were awarded to staff, including key management, and despite the Bank's poor financial results in 2009, during 2010 the Bank sought and obtained the approval of shareholders to make LTIP awards to key members of the Bank's management to reward strong performance (in respect of the 2009 year) and serve as a retention tool.

In aggregate, LTIP awards in 2010 (for the 2009 year) totalled AED 47,084,827.

Salaries, emoluments and cash bonuses of key management

Given that in 2009 no general salary increments or ERP payments were awarded to staff, including key management, and despite the Bank's poor financial results in 2009, during 2010 the Bank sought and obtained the approval of shareholders to award staff with cash bonuses (and LTIP as described above) to reward their strong performance and serve as a retention tool.

Key management received salaries and other emoluments (excluding cash bonuses) worth AED 20,268,000 in aggregate.

During 2010, staff received cash bonuses worth AED 76,844,824 in aggregate. Of this, AED 19,181,350 was allocated to key management. These bonuses related to performance in the 2009 year and were subject to claw back and retention provisions.

For these purposes, key management staff means members of the Bank's Management Executive Committee.

The Bank uses independent external consultants to conduct regular benchmarking studies of the Bank's remuneration and remuneration studies. The results of the most recent study were received by the Bank during 2010.

STRATEGY SETTING

The Board of Directors are responsible to determine the Bank's strategic direction. In 2010, the Bank established a formal strategy-setting process to enhance the robustness of the role of the Board of Directors to oversee and monitor the process and to ensure effective ongoing dialogue with management.

Following an initial meeting of the Directors, where the Directors give guidance on strategic direction of the Bank for the forthcoming year (with due consideration given to risk tolerance, shareholder expectations, business development opportunities and other factors), senior management designs the Bank's strategic plan. This is then considered, challenged and discussed at an offsite meeting of management. The plan is then presented at an offsite meeting of the Board, following which the final plan is adopted. Thereafter, quarterly updates are provided by senior management to the Board of Directors to monitor progress and permit any necessary modifications or adjustments in strategic direction.

GOVERNANCE AT ADCB

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

Responsibility - clear division and delegation of authority.

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

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

Fairness - in the treatment of all stakeholders.

Corporate governance code

ADCB is committed to high standards of corporate governance. In 2008 the Bank adopted an internal code of corporate governance, which is based on local regulation and international best practices. The Code was revised in 2010. It is available on the Bank's website at: www.adcb.com/aboutus/corporategovernance.

At 31 December 2010, the Bank had achieved the following:

- almost full compliance with the Securities & Commodities Authority corporate governance regulations, despite the fact that SCA exempted banks from the application of the Code during the year;
- completion of its three-year programme to implement best practices in corporate governance;
- enhanced disclosures in the Bank's corporate governance web pages;
- enhanced disclosures in the Bank's 2009 annual report;
- performance evaluation of individual directors and the Board of Directors;
- adoption of various policies and procedures designed to enhance essential governance measures and improve Board effectiveness; and
- ongoing review of international developments in corporate governance and assessment of best practices.

External recognition

The Bank's achievements in corporate governance resulted, in 2010, in the Bank winning the World Finance Magazine Corporate Governance Award for achieving the best levels of good governance in the UAE and being featured by the World Bank as a case study in good governance.

Code of conduct

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

Disclosure standards

The Bank's corporate governance principles require the Bank to maintain high standards of disclosure and transparency.

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

Communication with shareholders

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

Investor relations

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

- investor and analyst relations; and
- material disclosures to, and engagement with, investors and key Bank stakeholders.

Articles of association

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

Islamic Banking

ADCB Meethaq, the Islamic Banking window of ADCB, was launched in September 2008. It offers a complete suite of Consumer, Wholesale and Treasury Banking products. Over the last three years the bank has initiated a series of measures from the perspective of Shari'ah governance to provide a credible Islamic Banking alternative to its customers, carried out under the guidance of a three-member Shari'ah Supervisory Board, which operates according to the IFSB standards and guidelines as laid by AAOIFI.

The Shari'ah Supervisory Board is comprised of:

Dr Hussain Hamid Hassan, Chairman
Sheikh Abdul Hakeem Zoeir, Member
Dr. Muhammed Qaseem, Member

The Shari'ah Supervisory Board issues a Fatwa (edict) for each product to certify its compliance with the requirements of Shari'ah. This includes approving the product structure including the underlying Islamic contract, legal documentation, operational process flow and all associated product literature.

GOVERNANCE AT ADCB (cont.)

The product Fatwas issued by the Shari'ah Supervisory Board are made available on the bank's web site and displayed at the Bank's branches - see http://www.adcbmeethaq.com/aboutus.

The three members of the Shari'ah Supervisory Board are regularly updated with the strategy, policies and procedures of the Bank. To manage the day-to-day operations and ensure Shari'ah compliance, the Bank liaises with Dar Al Sharia, a Shari'ah consultancy firm that manages the role of the Shari'ah coordinator. In 2010, the Shari'ah Supervisory Board met 4 times to review the business progress and ratify Shari'ah-related issues submitted for its review during the quarter.

The Bank maintains a separate set of general ledger and accounts to ensure that the books of accounts for the Islamic business are accounted for separately as per AAOIFI standards. To this effect, the Bank has appointed a dedicated Islamic accountant and routes all Islamic transactions through a dedicated Islamic core banking system. The P&L statement and balance sheet for the Islamic business is published internally on a periodic basis.

Islamic liabilities are used to fund Islamic assets and any excess is placed in Shari'ah compliant investments. A dedicated resource in Treasury manages the Islamic funding. Staff members have undergone training for all products and process and are regularly updated. An internal audit team regularly audits the Islamic business. In 2010, the Bank carried out a Shari'ah audit to check the operational aspects of the product implementation and execution of documents.

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

Corporate Social Responsibility

MESSAGE FROM THE MANAGEMENT

ADCB is one of the UAE's foremost Banking institutions, and as such, takes a leading role as a socially responsible corporate citizen, as is evident from the numerous community programmes we have been involved in throughout the past year. We are dedicated to providing the very best services and products to our customers and a supportive, educational yet challenging environment for our staff, while ensuring that we deliver excellent returns to our shareholders.

This report shows the different ways in which ADCB conducts responsible business, from raising awareness of environmental and health issues, to supporting community causes and committing to employee welfare. We put our local and regional community at the heart of everything we do and remain deeply committed to improving our CSR credentials.

This report emphasises ADCB's commitment to sustained CSR achievements, helping create a better environment for everyone we inspire.

GUIDING PRINCIPLES:

Employee Career Enhancement & Welfare

- Emiratization

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

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

ADCB's recruitment and development drive now supports over 1,000 UAE nationals, which totals 36% of all employees (excluding the recent acquisition), working for the Bank at the end of 2010.

In furtherance of its efforts to attract and retain UAE talented employees, ADCB launched Mahara Emirati Academy a specialized banking learning programme for UAE nationals, whereby graduate trainees can receive on the job training in their preferred departments and branches and launch onto a successful career in banking. ADCB has always been proud of its steady strides in the implementation of its strategic plan to increase the percentage of the UAE national professional and skillful employees among its personnel.

- HR Training

ADCB believes its strongest competitive advantage is the knowledge of its people, and is keen to create avenues for enhancing and strengthening this knowledge to sustain a competitive edge.

During 2010, ADCB continued to provide the best opportunities for its people to grow and develop through launching many programmes and initiatives. The long-term vision provides a clear career development path for every employee in ADCB using both home-grown talent and best-in-class external providers. Below are the training programmes launched in 2010:

– Leadership & Management Academy

1. ADCB is committed to fostering a positive environment for continuous learning with the primary objective of maintaining and improving the knowledge, skills and abilities of its employees using the ADCB competency framework.

2. ADCB encourages employees to continually develop, not only in their current role, but also within a broader management perspective and meet their career aspirations.

3. A series of sessions throughout the year have been delivered both internally and externally on increasing the competence of talent across the Bank in their leadership and management activities.

– Induction of 350 RBS staff into ADCB and Induction of 600 services staff into ADCB.

All staff from the recently acquired RBS Operation (both core and services) have completed the ADCB Marhaba induction day, introducing them to the culture of ADCB and providing them with the relevant information they need to effectively come on board.

GUIDING PRINCIPLES: (cont.)

– Training of UAE national Trainees in Fujairah, Al Ain and Abu Dhabi.

As part of ADCB's UAE national development initiatives, the Bank has trained 300 UAE nationals as part-time trainees in weekly sessions on the Basics of Banking. The top candidates of each batch receive priority for full time recruitment.

– Initiating Aspiring Managers Programme for Officer-level UAE nationals.

The UAE national Aspiring Managers Programme is a 10-month long initiative that develops 16 top talent officer-grade nationals into future managers of ADCB. The programme includes both internal and external development workshops, in addition to practical business projects.

– Bespoke training academies for Consumer Risk.

A series of training modules, such as the successful Fundamentals of Consumer Credit programme.

- Accommodation and Training of RBS Staff

In the last quarter of 2010, ADCB laid a historic milestone in UAE Banking sector and for ADCB, when it officially acquired the Retail and SME Banking business of RBS in the UAE.

At the time of the transaction, ADCB's CEO encouraged staff to get to know their new colleagues at the earliest opportunity, and to create ADCB's expanded family through a seamless integration.

Following the successful acquisition of RBS Retail Operations, the Abu Dhabi Commercial Bank Services Company (ADCB SC), which was previously RBS Services Company, was fully registered with the free zone authority, TECOM.

This move represents a major step in the process of bringing teams together under the same roof. The Bank's Dubai Outsource Zone facilities provide an excellent work environment within which employees doing similar work can be organised into even more effective teams.

In parallel, the next step to consolidate the integration, alignment and effectiveness of all ADCB SC staff is to provide an employment structure, which includes grades, benefits and other employment terms and conditions, which are fair, equitable and consistent.

- Work Environment and Safety

ADCB believes and considers employees its most important asset and accords high priority to their welfare. In order to ensure safety for all ADCB staff, the Bank carried out full fire safety training and fire drills in all ADCB branches and operational premises during 2010.

ADCB also introduced its new health and safety policy, and health and safety statement for the business. Through its prudent policy on highlighting risks in the workplace, and training staff in the management of those risks, ADCB had no incidents or accidents in 2010.

- Equal Opportunity

Each employee has the right to be respected and to receive fair and equitable treatment. Harassment of individual or group on the basis of race, sex or gender, disability, national or ethnic origin, colour, religion, marital status or any other category is prohibited at ADCB. Any allegations are handled in a timely and sensitive manner, with the rights of the complainant and the respondent respected at all times.

As at 31 December 2010, ADCB employed over 3,824 people, out of which 1703 were females, representing 48 nationalities.

- Employee Engagement

ADCB's fourth annual employee engagement survey was conducted in November 2010 and received a massive participation rate of 92.6% – the highest in the study's history. Employees responded to a range of engagement drivers, addressing a number of topics including working conditions, shared values with the company, economic security, and training opportunities.

Employee engagement is designed to heighten the connection that employees have with their job, company, company leadership, co-workers and managers, and to influence them to apply additional effort and maintain a level of enthusiasm to further the Bank's interests.

In spite of the increasingly challenging economic and business circumstances at ADCB, employee engagement has remained high throughout the past four years. This reflects the pro-active initiatives of the executive management in addressing and supporting the remedial action plans built each year, based on employees' responses.

Employee engagement survey reports are used by the management to address the areas of concern and empower employees to become proactive and accountable for shaping and improving their work experience at ADCB.

- Code of Conduct

The Code of Conduct of ADCB applies to all employees of the Bank. The principles and core values outlined are intended to:

- Establish a minimum standard of conduct by which all ADCB employees are expected to abide.
- Protect the business interests of ADCB, its employees and customers.
- Maintain ADCB's reputation of integrity.
- Ensure that ADCB, through its employees, complies with applicable legal and regulatory obligations.

ADCB has established a set of core values that are designed to provide the framework for employee behaviour and foster a new customer-centric culture within the Bank. There are seven core values: Integrity, Responsibility, Stability, Empowerment, Efficiency, Innovation and Consistency. The common denominator of the seven core values is, "commitment is the key success".

The principles in the Code and adherence to the core values are the individual and collective responsibility of all employees. According to ADCB's standards of internal control, management and all employees must maintain and demonstrate personal and professional integrity for prevention of fraud and for removing incentives or temptations for unethical behaviour.

- Non-Financial Benefits

The Bank offers a range of benefits in order to meet a variety of employees needs. The non-financial benefits include:

1- End of Service Gratuity: paid to employees who have served the Bank with good conduct for at least one year.

2- Life Insurance: a benefit provided to all employees through the Bank's life and accident policy.

3- Medical Insurance: a benefit provided to all employees, their spouse and up to three children below the age of 18 years, who are resident in UAE.

4- Loans and Advances: employees are eligible for personal loans, mortgage loans, and car loans as per the policy applicable to employees.

5- Retirement Pensions and Benefits: the Bank is a member of Abu Dhabi Retirement Pensions and Benefits Fund and participates in the mandatory pension scheme for the UAE nationals.

Customer Outreach

- Protection of Customer Confidentiality/Privacy

ADCB is aware that in banking industry, confidentiality is fundamental and the customers trust ADCB with their confidential information, as do counterparts and suppliers. To preserve and protect that trust, and to meet legal requirements, each employee has a duty to preserve and protect confidential information. An employee's duty regarding confidentiality continues even after they leave ADCB.

Employees must preserve the confidentiality of customer, employee, supplier and ADCB information, and access information only when they have been authorized to do so and there is a valid business reason.

ADCB's privacy standards are a commitment to protect and preserve the privacy of its customers. To properly uphold these standards, employees must be familiar with and follow these requirements, which include, communicating the standards to customers and respecting customer's consent regarding use of their information, including use for marketing purposes.

Employees must not only be above reproach, but also seen by their customers and the community to be above reproach. Employees must conduct themselves at all times so as to meet this level of trust and reinforce our core values. In this context, account inquiries should only be performed in conjunction with normal business activities or with direct invitation or authorization of the customer. Unsolicited or unauthorized inquiries about a customer's account or information (including those of another employee) outside such normal business activities, including out of curiosity are considered to be an "invasion of privacy" and will not be tolerated. ADCB may monitor employee queries concerning customer accounts for compliance with these requirements.

Within ADCB, an employee must only communicate customer and other confidential information on a "need to know" basis.

Employees are required to assume that information about ADCB's customers and information received from them is confidential unless expressly told otherwise.

- Fair Competition

ADCB is committed to ensuring that it does not engage in tied selling. No customer should ever be refused a financial service or product which they qualify - in particular but not limited to a loan - because they do not want to transact other business with ADCB.

Employees may not sell or offer a product or service-including a loan - on the condition that a customer is required to bring other business to ADCB or refrain from using a competitor's product or services.

Employees may use cross-selling and relationship pricing when applicable, but only to the extent permitted in the jurisdiction in which they operate.

Marketplace and customer data are important, ADCB can and does gather this type of information that may include information about its competitors and how they do business. This information is obtained through legal and ethical channels.

ADCB does not communicate, acquire or use trade secrets of others, unless it has acquired the legal rights to do so. Accordingly, employees may not engage in illegal or unethical activities to gain priority information, including an employee of a competitor to provide confidential information or including another employee of ADCB to engage in such activity.

An employee may not participate in internet chat rooms or newsgroups in discussions relating to ADCB, its customers or its securities. An Employee may not utilize e-mail or the internet to disseminate rumours, particularly if they involve another company, a regulatory investigation or information that could have a detrimental affect on another business or which appears to be confidential in nature.

- Customer Complaints

InterAct is critical to ADCB's reputation as a financial and customer service organization. It is comprised of 18 professionals who handle an average of 4000 complaints a month across ADCB, received through different channels including the Contact Centre, branches, and walk-in customers as well as complaints received through the Central Bank and media. Part of these complaints are managed and closed directly by the team as per delegated authority, and the remainder are resolved through cooperation with all Bank groups and departments.

InterAct has maintained a very successful record in professional and timely resolution of customers' complaints. In 2010, the InterAct team managed to resolve 91% of complaints within three working days, while scoring service recovery (customer satisfaction) of 76% for Bank policy related complaints and 93% of all other types.

GUIDING PRINCIPLES: (cont.)

- E-Channel Awareness Campaigns

ADCB's Alternative Channels include ADCB@ctive Internet Banking, ADCBMobile – SMS Banking, e-Statements, Websites, 24-hour Contact Centre with Automated Phone Banking and ATMs.

ADCB has invested in various initiatives and enhancements to the above channels so as to provide timely information to customers about their relationship with the Bank. This includes alerts for various transactions, rates and pricing information displayed clearly prior to completing a transaction, and continuous customer education on how to ensure safety while banking in an electronic environment.

The Bank's Alternative Channels provide facilities to make donations to charitable organisations such as Red Crescent. These facilities assist customers in making donations directly to the respective charitable organisations accounts online. It also provides a free and secure e-Statement service which automatically sends subscribers their account and credit card statements by email instead of through the post. Customers are also given an incentive to subscribe to e-Statements. By enabling customers to make this simple switch, ADCB's Alternative Channels contribute towards saving trees and promote a cleaner and greener environment.

- Customer Satisfaction Surveys

Annually, ADCB adopts and runs customer satisfaction surveys covering the following sectors and fields of services:

1. Retail Banking – since 2004.
2. SME Banking – since 2007.
3. Excellency – since 2007.
4. Corporate Banking – since 2008.
5. Privilege – since 2009.
6. Al Dhabi Brokerage Company, LLC, a subsidiary fully owned by ADCB – started in 2010.
7. Abu Dhabi Commercial Engineering Services, LLC, a subsidiary fully owned by ADCB – started in 2010.

Community Investment

- ADCB - Sports Care Programme Partnership

Out of its keenness to build strategic partnerships with public sector entities, and as part of its endeavours to activate community service and partnership programmes, ADCB signed a Memorandum of Understanding (MOU) with Sports Care Programme to mutually support the sports events and services rendered by Sports Care Programme.

The MOU provides for the employment of a number of retired athletes registered with the Sports Care Programme by ADCB, to fill positions suitable to their academic qualifications and fields of specialisations. The MOU also provides for the registration of a certain number of retired athletes in various training courses throughout the year.

This initiative is not just an employment opportunity; it is a way of continuing their accomplishments and realising their ambition in life.

- ADCB's Support of Emirates Woman Awards 2010

In line with the ADCB's brand message of "Long Live Ambition", ADCB sponsored the Emirates Woman Awards for the second year in 2010. The Award is one of the region's most exciting and inspiring annual events, and was held in November 2010 at the Park Hyatt Hotel, Dubai. For over four years, Emirates Woman has been honouring and celebrating women's achievements in the UAE. From artists to visionaries, achievers to humanitarians, each are inspirational examples of empowered women who are forging ahead in their respective industries.

ADCB supported this exceptional event within the framework of the Bank's brand message of Ambition, as it recognises strong, ambitious women in the UAE, upholding local achievements and encouraging drive and aspiration.

ADCB prides itself in celebrating the incredible ambition and drive of all Emirates women today. The Bank also honours the energy and significant contribution of these motivated women to enhance the progress of the UAE as a whole.

As a special addition to this year's Emirates Woman Award, and in recognition of the UAE-based women who are breaking down barriers, shattering stereotypes and striding forward in business, art, philanthropy and visionary projects, ADCB offered a once-in-a-lifetime cash prize of US$10,000 and personal business investment advice from the professionals at ADCB, to help one lucky winner achieve her ambition. The winner was also offered a Key Management Challenge course courtesy of INSEAD, one of the world's leading graduate business schools.

- ADCB's Al Ain Call Centre

Women are leading the way at ADCB's Al Ain call centre with operations being run entirely by female staff.

The outbound call centre has been operational since January 2008 and was part of the Bank's strategy to employ and empower UAE nationals in Al Ain.

Al Ain Telecommunications Calling Centre accommodates all the customer's requests and inquires and deals with services such as the activation of cards, updating customer records and maintaining records for "Know Your Customer" and cross-sell credit cards, Islamic segment and deposits.

Being a local Bank, it is the Bank's strategy to strengthen the overall workforce of the nation, specifically by employing more UAE nationals.

- ADCB - Marriage Fund Tie Up

Within the framework of their commitment to the highest standards of corporate social responsibility, ADCB-Meethaq and the Marriage Fund signed an MOU on strategic partnership and cooperation, which is also part of the framework of the Bank's commitment towards the community which it serves. ADCB always endeavours to enhance its role in the best interest of the country. This initiative represents another milestone in the future cooperation with government social institutions; furthermore, it reflects ADCB's active role in corporate social responsibility through the support provided to the Marriage Fund and its family activities, programmes and goals.

The MOU covers various aspects of cooperation between ADCB and the Marriage Fund such as supporting the Fund's marketing and health campaigns, and extending sponsorships for various social programmes and group weddings initiated by the Fund.

- Sponsorship of Regional First for KTM-UAE Team

ADCB has become a household name in the sporting industry in the UAE. In 2010 ADCB sponsored and supported the KTM-UAE motor bike racing team, who participated in the Abu Dhabi Desert Challenge in March 2010 and followed this with equally impressive podium finishes in Tunisia and Sardinia.

World champion, Tim Trenker, who rides for the ADCB-sponsored KTM-UAE team, won the 2010 Championship Open Production Trophy after finishing second in his class, and fifth place overall, in the Pharaons Rally of Egypt, the final round of the 2010 FIM Cross-Country Rallies World Championship.

This result shows to the world that the UAE has the strength to compete at the highest levels of world rallying. Winning this title is a reward for the efforts of everyone involved with the KTM-UAE team.

ADCB's sponsorship of important and popular sports teams such as KTM-UAE is based on a commitment to the Bank's corporate social responsibility, and is part of the ADCB's pledge to serve the community.

- Armed Forces Officers Club Tournament Sponsorship

Local and international athletes represented their respective countries by taking part in the ADCB-sponsored Armed Forces Officers Club 14th Ramadan Championship 2010 during the holy month of Ramadan. The event attracted national sports teams, clubs and individuals from all over the world to compete in various sporting disciplines.

This tournament is considered to be one of the most important sporting events in the UAE. ADCB continues to support such events, reflecting the UAE's bright image, in different fields of sports, tourism, culture and society.

- Chess Championship Sponsorship

Twenty-four chess players took part in the H.H. President Chess Championship in June 2010 at the Al Ain Culture and Chess Club. The event, which was held under the auspices of the Chess Union and sponsored by ADCB, attracted players representing clubs from all of the emirates: Abu Dhabi, Al Ain, Dubai, Sharjah, Ajman, Al Fujairah, and Ras Al Khaimah.

ADCB's sponsorship of this significant sporting event complements the Bank's CSR initiative to support local sporting and social activities. In addition, it reflects its strong relationship with the Al Ain Culture and Chess Club. This partnership is yet another example of the commitment by key organisations in Abu Dhabi to support those in the sporting world by helping magnify their role and importance in the community.

Responsible Banking

- Ambition Loan for Education

In line with the Bank's strategy to support and develop the talent resources in the UAE, ADCB has entered the education loan market in the UAE with its offer of Education Loans for working professionals looking to pursue higher education, and for parents wishing to finance their child's education. ADCB has entered this new market since the domestic higher education in the Arabian Gulf has been identified as a prime driver for economic development.

ADCB's "Ambition Loan for Education" offers exceptional educational opportunities with most internationally recognised and leading business schools and universities in the UAE and across the world, to advance knowledge and learning in different disciplines.

ADCB Education Loan has been designed to ensure that finance, or rather the lack of it, does not get in the way of the higher education aspirations of any meritorious student. ADCB constantly endeavours to help progress the educational development in the UAE, to embody the Government's plan to build the new generation of students, enabling them to take part in the evolutionary process of the UAE.

ADCB has introduced a unique feature where a parent or professional seeking educational finance can apply for a preapproval from the Bank. This process is advantageous to the customer as it enables him or her to determine the amount of money they will be approved for on an educational loan before declaring a final educational institution, which can help to decide on the education institute as per his financial capability.

- ADCB - Zakat Fund Alliance

ADCB has affiliated with Zakat Fund to enable ADCB customers, for the first time, to contribute to zakat through electronic channels. In addition to financing the cost of all technical systems and support, ADCB will develop the new IT infrastructure necessary for collecting zakat on behalf of the fund by displaying a Zakat Fund icon on the Bank's customer service electronic channels identifying this unique service.

At ADCB, customers are actively encouraged to pay their alms, thus boosting compassion and sympathy as prominent communal values. This electronic service is yet another successful initiative to make ADCB's products and services more accessible and user-friendly.

Zakat Fund chose to partner with ADCB as the Bank that has proven itself as a pioneering financial institution that provides a unique set of banking products and services through its widespread network of branches and alternative channels.

- Meethaq Credit Card

The ADCB Meethaq Credit Card is the first card introduced in the UAE with a CSR theme. The core ideals of the card are reflected in its partnerships with the Red Crescent Authority and Environment Agency - Abu Dhabi.

GUIDING PRINCIPLES: (cont.)

Red Crescent, a humanitarian organisation, benefits from the partnership as donations are made by ADCB to Red Crescent every time an Islamic Credit Card is issued to a client, as well as each time a client uses the card for a transaction. These donations are made on behalf of the client by ADCB, with funds from ADCB and not from the client's account.

ADCB's alliance with the Environment Agency, Abu Dhabi focuses on promoting environmental awareness by assisting the Agency in educating customers as well as providing opportunities for customers to participate in environmental campaigns.

- Unified Credit Culture Launch

The Unified Credit Culture programme is well under way, and the first series of seminars under the banner of Academy of Ambition has rolled out in 2010.

Created to bring best practices to ADCB on corporate client analyses, relationship needs assessment, risk identification review and credit fundamentals, the 18-month programme will run as a series of internally conducted seminars.

Launched in October 2010 with two pilot programmes to 40 critical stakeholders and decision makers in the Corporate Credit process, and then with a half-day workshop for the ADCB Board of Directors in November, the project is now being rolled out to all staff in the credit sector.

Health and Safety

- Heart Disease Awareness Day

ADCB in collaboration with Sheikh Khalifa Medical City held a Heart Disease Awareness Day for its staff at ADCB's head office in Abu Dhabi. Over 350 ADCB employees received complimentary check-ups which included blood pressure, cholesterol and glucose levels. Employees also received information on their Body Mass Index (BMI) and Framingham risk score, all calculated by the staff from Sheikh Khalifa Medical City.

The session provided staff with the opportunity to ask questions on any aspect of healthy living with answers being provided by a leading consultant in cardiology. The question and answer session covered important topics such as quitting smoking, the importance of physical exercise and overall advice on healthy living.

ADCB is committed to ensuring that its employees take the necessary steps towards living healthily. Through hosting events, such as the Heart Disease Awareness Day, the Bank is taking the necessary measures to assure its staff has the foundations on which to achieve their life ambitions.

- Breast Cancer Awareness Drive

Under the patronage of H.H Sheikh Falah Bin Zayed Al Nahyan, Chairman of Ghantoot Racing & Polo Club, Pink Polo was launched in October 2010, when the exclusive, royal grounds of Ghantoot Racing & Polo Club threw open its doors to support breast cancer awareness in the UAE.

Organised in association with Health Authority - Abu Dhabi, and presented by ADCB, the "edutainment" Polo exhibition match was the first of its kind as it included a day-long entertainment and educational programme.

Women and their families visited the Pink Majlis, an information point where visitors spoke to medical experts, met breast cancer survivors, learnt self examination techniques and had free screenings in the mobile mammography unit. The event also witnessed the first ever ladies-only polo hospitality, the Pink Terrace, where women enjoyed a private VIP experience whilst watching the polo.

Pink Polo is a creative event that ADCB is delighted to have become involved with as it provides an excellent opportunity to show the Bank's support for an important cause that affects the very heart of the UAE community.

- New Fire Prevention Strategy by ADCP

Abu Dhabi Commercial Properties LLC (ADCP), a wholly owned subsidiary of ADCB, has launched a new initiative across its managed portfolio in which it has commissioned a comprehensive study to define a new fire prevention strategy. The objective of the project is to define an agreed forward looking strategy that will assist and support Civil Defense with their critical activities across the Emirate of Abu Dhabi.

ADCP has also launched a new initiative across its managed portfolio in which it issues fire blankets to all its tenants upon renewal of individual rental contracts at all the six branches across the Emirates: ADCP Head Office in Tourist Club Area, Khalifa A branch, Al Ain branch, Al Hili Al Ain branch, Al Gharbia branch and Dubai branch.

The Fire Audit Assessment on more than 2,500 buildings in Abu Dhabi is the largest of its type in the UAE and has been initiated as a pro-active step by the property managers to establish a basis to improve and enhance the overall fire safety provisions in their managed buildings across Abu Dhabi.

The opening of a dedicated contact centre that is equipped with an integrated database of customer contacts falls in line with ADCP's consistent goals and objectives of maintaining clear communication channels. Staffed by dedicated English and Arabic speaking customer service staff, ADCP is able to respond swiftly and efficiently to client queries, and receive and manage complaints.

Environment

- ADCB Partnership with Enviroserve to go green

ADCB tied up with Enviroserve to provide environmentally responsible e-waste disposal. ADCB is dedicated to continuing the promotion of environmentally friendly and sustainable businesses, and this partnership is one of many initiatives to be implemented by the Bank in its efforts to encourage further green awareness.

Enviroserve is a technology asset management company specialising in end-of-life electronic management, and assisting clients in developing and implementing effective technology end-of-life asset management practices. ADCB had an initial volume of e-waste of 11.5 tons that was collected and has been processed by the Enviroserve team. The procedure for disposal is based on international standards of environmental safety. Once collected the e-waste is segregated and hazardous parts are shipped to accredited refineries overseas.

Through implementing this initiative ADCB reaffirms its role as a pioneer in the national banking industry, being one of the first banks to put into action an effective and environmentally responsible waste management system.

- Recycling Initiatives

In the Bank portfolio, including the Head Office on Salam Street, through a number of exercises including installing units on all taps, having a lights-off policy, and down time on the air conditioning system, utility use has been reduced by 10% each year in 2009 and 2010.

ADCB has also established a new paper supply contract with UPC, which helps the Bank utilise recycled paper, as well as the continued use of a double sided printing practice.

Moreover, ADCB operates a zero bottled water policy, in order to reduce water usage and use of plastic in the business.

In partnership with the Abu Dhabi Executive Affairs, ADCP, the property management subsidiary of ADCB, carried out a study on a number of properties, in order to establish a new air conditioning maintenance regime which will see utility use in properties reduce by 15-20%. In addition, ADCP has signed up for the MASDAR START initiative, and is currently reviewing the planned and phased implementation of recycling across the entire portfolio of over 2,500 buildings.

ADCB is pound to state that, in the past 3 years, no significant environmental incidents were recorded.

Report and consolidated financial statements

for the year ended December 31, 2010

Consolidated Statement of Financial Position	
Total Liabilities	43,206,601
Total Equity	5,328,981
Total Assets	48,535,582

Consolidated Income Statement	
Operating income	1,452,736
Net profit for the year	106,348
Net interest income net of distribution to depositors	1,002,506

Figures in US$000's

Independent Auditor's Report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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 about 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 at December 31, 2010, 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. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Saba Y. Sindaha

Registration Number 410
January 25, 2011

Consolidated statement of financial position

as at December 31, 2010	Notes	2010 AED'000	2009 AED'000	2010 US$'000
ASSETS				
Cash and balances with Central Banks	6	5,887,630	4,139,015	1,602,949
Deposits and balances due from banks	7	18,397,534	18,348,988	5,008,858
Trading securities	8	-	86,561	-
Loans and advances, net	9	122,771,870	116,610,292	33,425,502
Derivative financial instruments	10	3,588,973	4,953,019	977,123
Investment securities	11	8,263,138	4,372,744	2,249,697
Investments in associates	12	5,358,199	4,582,659	1,458,807
Investment properties	13	289,192	549,492	78,735
Other assets	14	12,489,157	5,774,287	3,400,260
Property and equipment, net	15	1,070,321	791,721	291,402
Intangible assets	16	155,180	-	42,249
Total assets		178,271,194	160,208,778	48,535,582
LIABILITIES				
Due to banks	17	4,841,865	4,738,201	1,318,232
Deposits from customers	18	106,134,185	86,299,957	28,895,776
Mandatory convertible securities - liability component	19	29,131	109,049	7,931
Short and medium term borrowings	20	21,019,694	28,921,804	5,722,759
Derivative financial instruments	10	3,487,764	4,689,489	949,568
Long term borrowings	21	8,906,109	8,619,494	2,424,751
Other liabilities	22	14,279,098	7,740,665	3,887,584
Total liabilities		158,697,846	141,118,659	43,206,601
EQUITY				
Share capital	23	4,810,000	4,810,000	1,309,556
Statutory and legal reserves	24	2,704,179	2,627,979	736,232
General and contingency reserves	24	2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	25	(36,677)	(13,438)	(9,986)
Foreign currency translation reserve		136,676	(353,736)	37,211
Hedge reserve		(537,904)	(107,360)	(146,448)
Cumulative changes in fair values		174,799	(194,279)	47,590
Other reserve		5,630	-	1,533
Retained earnings		1,524,201	1,467,983	414,974
Capital notes	26	4,000,000	4,000,000	1,089,028
Mandatory convertible securities - equity component	19	4,633,883	4,633,883	1,261,607
Equity attributable to equity holders of the parent		19,564,787	19,021,032	5,326,650
Non-controlling interests		8,561	69,087	2,331
Total equity		19,573,348	19,090,119	5,328,981
Total liabilities and equity		178,271,194	160,208,778	48,535,582

Eissa Al Suwaidi Chairman

Ala'a Eraiqat Chief Executive Officer

Consolidated income statement

for the year ended December 31, 2010	Notes	2010 AED'000	2009 AED'000	2010 US$'000
Interest income	27	7,158,894	6,844,876	1,949,059
Income from Islamic financing		217,541	52,947	59,227
Interest expense	28	(3,507,961)	(3,491,704)	(955,067)
Net interest income		3,868,474	3,406,119	1,053,219
Distribution to depositors	18	(186,269)	(129,976)	(50,713)
Net interest income net of distribution to depositors		3,682,205	3,276,143	1,002,506
Net fees and commission income	29	956,253	985,624	260,347
Net gain on dealing in derivatives		169,766	43,468	46,220
Net gains from dealing in foreign currencies	30	142,962	106,636	38,922
Decrease in fair value of investment properties	13	(116,412)	(83,000)	(31,694)
Share of profit of associates	12	336,294	223,162	91,558
Net (loss)/gain from trading and investment securities	31	(4,444)	71,578	(1,210)
Other operating income		160,868	152,564	43,798
Loss on disposal of subsidiary	51	(992)	-	(270)
Dividend income		9,400	6,631	2,559
Operating income		5,335,900	4,782,806	1,452,736
Staff expenses		(829,541)	(856,962)	(225,848)
Depreciation and amortisation	15 & 16	(108,795)	(89,083)	(29,620)
Other operating expenses		(710,646)	(593,355)	(193,479)
Impairment allowances	32	(3,287,071)	(3,752,974)	(894,928)
Operating expenses		(4,936,053)	(5,292,374)	(1,343,875)
Profit/(loss) from operations before taxation		399,847	(509,568)	108,861
Overseas income tax expense		(9,232)	(3,231)	(2,513)
Net profit/(loss) for the year		390,615	(512,799)	106,348
Attributed to:				
Equity holders of the parent		381,001	(559,448)	103,730
Non-controlling interests		9,614	46,649	2,618
Net profit/(loss) for the year		390,615	(512,799)	106,348
Basic earnings/(loss) per share (AED/US$)	33	0.04	(0.09)	0.01

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

Consolidated statement of comprehensive income

for the year ended December 31, 2010	2010 AED'000	2009 AED'000	2010 US$'000
Net profit/(loss) for the year	390,615	(512,799)	106,348
Exchange difference arising on translation of foreign operations	508,442	47,146	138,427
Fair value changes on net investment in foreign operation hedges	(430,544)	(107,360)	(117,219)
Fair value changes on available for sale investments	176,744	258,762	48,120
Fair value changes reversed on disposal of available for sale investments	111,474	182,953	30,350
Board of Directors' remuneration	(5,250)	-	(1,429)
Share in comprehensive income statement items of associate	68,460	(19,840)	18,638
Total comprehensive income/(loss) for the year	819,941	(151,138)	223,235
Attributed to:			
Equity holders of the parent	810,327	(197,787)	220,617
Non-controlling interest	9,614	46,649	2,618
Total comprehensive income/(loss) for the year	819,941	(151,138)	223,235

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

Consolidated statement of changes in equity

for the year ended December 31, 2010

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Other reserve AED'000	Retained earnings AED'000	Capital notes AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at January 1, 2010	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(13,438)	(353,736)	(107,360)	(194,279)	-	1,467,983	4,000,000	4,633,883	19,021,032	69,087	19,090,119
Net profit for the year	-	-	-	-	-	-	-	-	-	-	381,001	-	-	381,001	9,614	390,615
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	508,442	-	-	-	-	-	-	508,442	-	508,442
Fair value changes on net investment in foreign operation hedges	-	-	-	-	-	-	-	(430,544)	-	-		-	-	(430,544)	-	(430,544)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	176,744	-	-	-	-	176,744	-	176,744
Fair value changes reversed on disposal of available for sale investment	-	-	-	-	-	-	-	-	111,474	-	-	-	-	111,474	-	111,474
Board of Directors' remuneration	-	-	-	-	-	-	-	-	-	-	(5,250)	-	-	(5,250)	-	(5,250)
Share in comprehensive income statement items of associate	-	-	-	-	-	-	(18,030)	-	80,860	5,630	-	-	-	68,460	-	68,460
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	490,412	(430,544)	369,078	5,630	375,751	-	-	810,327	9,614	819,941
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(66,562)	(66,562)
Capital notes coupons paid (Note 26)	-	-	-	-	-	-	-	-	-	-	(243,333)	-	-	(243,333)	-	(243,333)
Shares granted (Note 25)	-	-	-	-	-	(47,085)	-	-	-	-	-	-	-	(47,085)	-	(47,085)
Shares - vested portion (Note 25)	-	-	-	-	-	23,846	-	-	-	-	-	-	-	23,846	-	23,846
Transfer to statutory reserve	-	38,100	-	-	-	-	-	-	-	-	(38,100)	-	-	-	-	-
Transfer to legal reserve	-	-	38,100	-	-	-	-	-	-	-	(38,100)	-	-	-	-	-
Disposal of subsidiary (Note 51)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,578)	(3,578)
Balance at December 31, 2010	4,810,000	1,374,483	1,329,696	2,000,000	150,000	(36,677)	136,676	(537,904)	174,799	5,630	1,524,201	4,000,000	4,633,883	19,564,787	8,561	19,573,348

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

Retained earnings include AED 80,991 thousand of share of profit of associate transferred to reserve fund. These are not available for distribution.

Consolidated statement of changes in equity

for the year ended December 31, 2010 (continued)

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

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

Retained earnings include AED 73,577 thousand of share of profit of associate transferred to reserve fund. These are not available for distribution.

Consolidated statement of cash flows

for the year ended December 31, 2010	2010 AED'000	2009 AED'000	2010 US$'000
OPERATING ACTIVITIES			
Net profit/(loss) before taxation and non-controlling interests	399,847	(509,568)	108,861
Adjustments for:			
Depreciation on property and equipment (Note 15)	101,775	89,083	27,708
Amortisation of intangible assets (Note 16)	7,020	-	1,911
Dividend income	(9,400)	(6,631)	(2,559)
Decrease in fair value of investment properties	116,412	83,000	31,694
Allowance for doubtful loans and advances	3,143,047	3,077,563	855,717
Recovery of allowance for doubtful loans and advances	(283,469)	(109,248)	(77,176)
Impairment allowance on credit default swaps	178,317	244,550	48,548
Impairment allowance on investment securities	249,176	540,109	67,840
Net loss/(gain) from sale of investment securities	4,444	(71,578)	1,210
Imputed interest on mandatory convertible securities	(79,918)	(59,386)	(21,758)
Share of profit of associates	(336,294)	(223,162)	(91,558)
Loss on disposal of subsidiary (Note 51)	992	-	270
Ineffective portion of hedges	511	-	139
Employees' incentive plan benefit expense	23,846	12,270	6,492
Operating profit before changes in operating assets and liabilities	3,516,306	3,067,002	957,339
Increase in due from banks	(4,293,390)	(431,367)	(1,168,906)
Increase in net trading derivative financial instruments	(20,481)	(72,656)	(5,576)
Increase in loans and advances	(9,015,356)	(10,414,205)	(2,454,494)
(Increase)/decrease in other assets	(913,920)	196,031	(248,821)
(Decrease)/increase in due to banks	(92,267)	1,445,543	(25,120)
Increase in deposits from customers	19,619,196	8,559,808	5,341,464
Increase/(decrease) in other liabilities	137,490	(333,983)	37,432
Cash from operations	8,937,578	2,016,173	2,433,318
Directors' remuneration paid	-	(4,750)	-
Overseas taxation paid	-	(3,231)	-
Net cash from operations	8,937,578	2,008,192	2,433,318

	2010 AED'000	2009 AED'000	2010 US$'000
INVESTING ACTIVITIES			
Investments in associates	-	(73,460)	-
Investment in subsidiary	-	(36,730)	-
Dividend received from associate	133,701	65,103	36,401
Disposal of subsidiary (Note 51)	55,148	-	15,014
Dividend received from investment securities	9,400	6,631	2,559
Purchase of trading and available for sale investment securities	(6,259,523)	(2,471,876)	(1,704,199)
Net proceeds from disposal of trading and available for sale investment securities	2,481,098	1,418,064	675,496
Net consideration paid on acquisition of business (Note 50)	(168,900)	-	(45,984)
Purchase of property and equipment	(167,520)	(311,096)	(45,608)
Sale of property and equipment	4,617	-	1,257
Additions to investment properties	(73,583)	-	(20,033)
Net cash used in investing activities	(3,985,562)	(1,403,364)	(1,085,097)
FINANCING ACTIVITIES			
Dividends paid to equity shareholders	-	(481,000)	-
Dividends paid to minority shareholders	(66,562)	(88,480)	(18,122)
Net (payment)/proceeds from short and medium term borrowings	(7,289,093)	314,462	(1,984,507)
Interest paid on capital notes	(243,333)	(120,000)	(66,249)
Disposal of non-controlling interests (Note 51)	(3,578)	-	(974)
Proceeds from issue of capital notes	-	4,000,000	-
Employees' incentive plan shares related payment	(47,085)	-	(12,819)
Net cash (used in)/from financing activities	(7,649,651)	3,624,982	(2,082,671)
(Decrease)/increase in cash and cash equivalents	(2,697,635)	4,229,810	(734,450)
Cash and cash equivalents at the beginning of the year	19,373,919	15,144,109	5,274,685
Cash and cash equivalents at the end of the year (Note 35)	16,676,284	19,373,919	4,540,235

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

Notes to the consolidated financial statements

for the year ended December 31, 2010

1 Activities

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

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

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

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs affecting presentation and disclosure

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Details of other IFRSs applied in these consolidated financial statement that have had no material effect on the financial statements are set out in section 2.2.

New and revised IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Bank has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.
IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.	The disclosure exemptions introduced in IAS 24 (as revised in 2009) were early applied by the Bank in advances to their effective date (annual periods beginning on or after January 1, 2011).

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

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

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
IFRS 1 (revised) First time Adoption of IFRS and IAS 27 (revised) Consolidated and Separate Financial Statements.	Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 3 (revised) Business Combinations	Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) Consolidated and Separate Financial Statements, IAS 28 (revised) Investments in Associates and IAS 31 (revised) Interests in Joint Ventures
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.
Improvements to IFRSs issued in 2009	All the amendments referred to in section 2.1 above were adopted, the application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.
Amendment to IFRIC 16: Hedges of a Net Investment in a Foreign Operation	The Interpretation removes the restriction in terms of which entity in the Group to hold the hedging instrument, subsequent to the amendment per IFRIC 16, any entity in the group can hold the hedging instrument that qualifies as net investment hedge in a foreign operation.
Amendment to IFRIC 9 (revised): Reassessment of Embedded Derivatives	Relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category

2.3 Standards and Interpretations in issue not yet effective

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

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
• IAS 32 (revised) Financial Instruments: Presentation – Amendments relating to classification of Rights Issue	1 February 2010
• IFRS 9 Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39 and IFRS 7) (*)	1 January 2013
• IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
• Amendment to IFRIC 14: IAS 19: The limit on a `defined Benefit Asset, Minimum Funding Requirement and their interaction	1 January 2011
• Amendments to IFRS 3, IAS 1, IAS 22, IAS 34 and IFRIC 13 resulting from May 2010 Annual Improvements to IFRSs.	Majority effective for annual periods beginning on or after January 1, 2011
• IFRS 1First time Adoption of International Financial Reporting Standards – Accounting policy change in the year of adoption, Revaluation basis as deemed cost and Use of deemed cost for operations subject to rate regulation	January 1, 2011
• Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010).	January 1, 2011
• IFRS 7 Financial Instruments Disclosures – Enhanced disclosure requirement for transfer transactions of financial assets	July 1, 2011

(*) IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

Management anticipates that these IFRSs and amendments will be adopted in the Bank's consolidated financial statements for the initial period when they become effective. On a primary assessment the application of IFRS 9 in the first period of its application may have some impact in respect of Bank's financial assets and financial liabilities, the quantification of the impact is possible only on completion of a detailed review of the IFRS. Management is in the process of considering and assessing the potential impact of the adoption of the other Standards and amendments.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable requirements of the Laws of the U.A.E..

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

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

3.2 Measurement

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

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment properties are measured at fair value
- recognised financial assets and financial liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

3.3 Presentation of information

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

The US Dollar (US$) amounts are presented for the convenience of the reader by converting the AED balances at an exchange rate of 1 US$ = 3.673 AED.

3.4 Use of estimates and judgements

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

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

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

3.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (collectively referred to as the "Bank") as set out in Note 48. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally conferred by holding a majority of voting rights. Subsidiaries are consolidated from the date that the Bank gains control until the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Special Purpose Entities

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

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

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

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

Funds Management

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

Joint venture and associates

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

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

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

Non-controlling interest represents the portion of profit or loss for the year and portion of net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately under the headings 'Non-controlling interest' in the consolidated financial statements.

4 Significant accounting policies

4.1 Deposits and balances due from Banks

Deposits and balances due from Banks are stated at cost less any amounts written off and allowance for impairment.

4.2 Loans and advances, net

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

Loan impairment

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

Individually assessed loans and advances

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

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

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

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

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified on individual loans

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

The collective impairment allowance is determined after taking into account:

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

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

Homogenous groups of loans and advances

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

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

Write-off of loans and advances

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

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

Renegotiated loans

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

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to neither past due nor impaired category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans for measurement purposes once the minimum number of payments required under the new arrangements have been received.

4.3 Collateral pending sale

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

4.4 Trading and Investment Securities

Trading and investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available for sale.

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

i) Trading securities which include investments at fair value through profit or loss (FVTPL)

ii) Investment securities which include available for sale (AFS) and held-to-maturity investments (HTM)

Fair value through profit or loss (FVTPL)

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

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

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

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

Available for sale

Investments not classified as either "fair value through profit or loss" or "held to maturity" are classified as "available for sale".

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

Gains and losses arising from changes in fair value are recognised in other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

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

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

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

– For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in equity.Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

Reclassifications

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

Derecognition of investment securities

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

4.5 Derivative financial instruments

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

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

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

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

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

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

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

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item are recognised in the consolidated income statement. The gains or losses on the hedged item attributable to the hedged risk is recognised in the consolidated income statement and adjusts the carrying amount of the hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

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

Net investment hedge

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

Hedge effectiveness testing

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

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

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

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

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in net gain on dealing in derivatives.

4.6 Investments in associates

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

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

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

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

4.7 Impairment of non-financial assets

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

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

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

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

4.8 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investments property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development is measured at fair value. Gains and losses arising from changes in the fair value of investment properties under development are included in the profit or loss in the period in which they arise. Upon completion of construction or development, such properties are transferred to investment properties.

4.9 Property and equipment

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

Depreciation is charged to income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

Freehold properties	15 to 25 years
Leasehold properties	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories (including computer software)	3 to 10 years

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

4.10 Goodwill

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.11 Capital work in progress

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

4.12 Borrowing costs

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

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

4.13 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 to the net carrying amount of the financial asset or financial liability.

4.14 Customers' deposits and short and medium term borrowings

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

Wakala deposits

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

4.15 Mandatory convertible securities

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

4.16 Equity instruments

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

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

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

(a) The instrument includes no contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments

4.17 Employees' end of service benefits

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

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

4.18 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

4.19 Sale and repurchase agreements

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

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

4.20 Acceptances

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

4.21 Financial guarantees

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

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

4.22 Recognition and de-recognition of financial instruments

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

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

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

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

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

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

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

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

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

4.23 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available for sale and no adjustments is recognised for assets carried at cost or amortised cost.

4.24 Cash and cash equivalents

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

4.25 Employees' incentive plan shares

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

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

4.26 Offsetting

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

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

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

4.27 Fiduciary activities

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

4.28 Segment reporting

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

4.29 Taxation

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

4.30 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives are as follows:

Intangible asset	Useful life
Credit card customer relationship	5 years
Wealth Management customer relationship	6 years
Core deposit intangible	5 years

4.31 Revenue and expense recognition

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

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

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

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

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

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

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

Murabaha financing

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

Ijara financing

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

Salam financing

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

4.32 Foreign currencies

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

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

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

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

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

5 Critical accounting judgements and key sources of estimation uncertainty

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

5.1 Loans and advances

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

5.1.1 Individually assessed loans

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

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

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

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

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

5.1.2 Collectively assessed loans

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

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

Retail loans – All the unsecured loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis. In cases of secured loans where the Bank possess collaterals (mortgage/auto loans) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

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

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

5.2 Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, the Bank engages internationally reputed valuers to employ valuation techniques to determine fair values. The models used by the valuers are periodically caliberated to ensure that output reflects actual data and prevailing market conditions. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5.3 Impairment of available for sale investments

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

5.4 Impairment of investments in associates

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

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

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

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

5.5 Derivative financial instruments

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

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

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

6 Cash and balances with Central Banks

	2010 AED'000	2009 AED'000
Cash on hand	524,961	470,374
Balances with Central Banks	4,612,669	3,668,641
Certificate of deposits with Central Bank	750,000	-
	5,887,630	4,139,015

The geographical concentration is as follows:	2010 AED'000	2009 AED'000
Within the U.A.E.	5,861,148	4,113,522
Outside the U.A.E.	26,482	25,493
	5,887,630	4,139,015

7 Deposits and balances due from banks

	2010 AED'000	2009 AED'000
Current and demand deposits	280,314	195,154
Murabaha placements	1,624,000	71,000
Placements	16,493,220	18,082,834
	18,397,534	18,348,988

The geographical concentration is as follows:

	2010 AED'000	2009 AED'000
Within the U.A.E.	8,898,826	5,719,958
Outside the U.A.E.	9,498,708	12,629,030
	18,397,534	18,348,988

8 Trading securities

	2010 AED'000	2009 AED'000
Quoted – Equity instruments	-	86,561

The geographical concentration is as follows:

	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Trading securities Quoted – Equity instruments				
2010	-	-	-	-
2009	6,962	67,125	12,474	86,561

Trading securities represent equity investments held by ADCB MSCI Arabian Markets Index Fund ("Fund"), a subsidiary of the Bank that present the Bank with an opportunity of return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair value of these investments is based on quoted market prices.

During the year, the Bank redeemed substantial units held by it in the Fund and as a result of these redemption the Bank lost control over the subsidiary and the residual interest was classified as available for sale investment as per IAS 39 (Note 51).

9 Loans and advances, net

	2010 AED'000	2009 AED'000
Overdrafts (Retail and Corporate)	15,192,902	15,537,675
Corporate Loans – Conventional	94,090,395	87,781,570
Corporate Loans - Islamic Financing	623,389	513,592
Retail Loans - Conventional	12,994,545	13,642,012
Retail Loans - Islamic Financing	2,559,598	1,000,302
Credit Cards - Conventional	2,662,505	1,442,136
Credit Cards - Islamic Financing	43,269	16,149
Other facilities	901,704	909,113
	129,068,307	120,842,549
Less: Allowance for impairment	(6,296,437)	(4,232,257)
	122,771,870	116,610,292

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

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Overdue but not impaired loans	Between 31 and 90 days past due
Past due or impaired	Over 91 days past due

The risk classification of loans and advances are as follows:

	2010 AED'000	2009 AED'000
Neither past due nor impaired	103,585,163	110,352,702
Overdue but not impaired loans	11,204,991	4,248,171
Past due or impaired		
- Past due and impaired	7,529,562	6,241,676
- Renegotiated and impaired	6,748,591	-
	129,068,307	120,842,549
Less: Allowance for impairment	(6,296,437)	(4,232,257)
	122,771,870	116,610,292

Analysis of the age of overdue but not impaired loans as at the end of the reporting period is as follows:

	2010 AED'000	2009 AED'000
31 – 60 days	5,797,611	1,086,415
61 – 90 days	5,407,380	3,161,756
Total overdue but not impaired loans	11,204,991	4,248,171

Renegotiated and impaired loans represent loans whose terms have been restructured resulting in concessions that the Bank would otherwise not agree in the normal course of business. These loans are not delinquent, however an impairment is recognised in accordance with IAS 39 to represent the benefits foregone by the Bank. The impairment recognised will be gradually unwound to the consolidated income statement in a manner that corresponds to the performance of the account in line with the restructured terms.

The above AED 6,748,591 thousand represents one single borrower located in the Emirate of Dubai. As per the terms of the restructuring, the principal amount will be paid in full but at a lower interest rate and over a longer period than the terms of the original loan. The restructuring terms have been agreed by the Bank and the final legal documentation is in the process of being formalized.

The Bank recognised an impairment charge of AED 1,055,424 thousand on account of the above restructuring and will be unwound gradually over the period of the loan in accordance with the performance of the account. This customer account balance was not past due, however since it has been impaired , the same has been classified as renegotiated and impaired.

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 470,865 thousand (December 31, 2009 – AED 495,150 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against the interest free loan to Government (Note 18).

Collaterals

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Bank accepts guarantees mainly from well reputed local or international banks, well established local or multinational corporates and high net-worth private individuals.

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

	2010			2009		
	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	2,727,403	1,504,854	4,232,257	930,739	1,059,272	1,990,011
Acquisition of business (Note 50)	114,368	-	114,368	-	-	-
Charge for the year	3,004,536	138,511	3,143,047	2,618,562	459,001	3,077,563
Recoveries	(283,469)	-	(283,469)	(109,248)	-	(109,248)
Net amounts written off	(910,130)	(168)	(910,298)	(713,311)	(13,509)	(726,820)
Currency translation	438	94	532	661	90	751
At December 31	4,653,146	1,643,291	6,296,437	2,727,403	1,504,854	4,232,257

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

	2010			2009		
	Within the U.A.E AED'000	Outside the U.A.E AED'000	Total AED'000	Within the U.A.E AED'000	Outside the U.A.E AED'000	Total AED'000
Economic sector						
Agriculture	9,162	-	9,162	10,723	-	10,723
Energy	3,476,648	275,344	3,751,992	3,292,251	247,967	3,540,218
Trading	798,734	7,313	806,047	1,161,430	313,138	1,474,568
Contractor finance	2,368,407	222,824	2,591,231	2,999,653	365,785	3,365,438
Development & construction	22,443,398	-	22,443,398	17,709,746	855,805	18,565,551
Real estate investment	12,277,648	685,593	12,963,241	10,177,666	112,028	10,289,694
Transport	2,439,560	555,336	2,994,896	3,325,111	240,184	3,565,295
Personal - retail loans	18,210,472	291,015	18,501,487	16,390,579	7,738	16,398,317
Personal - collateralised	19,428,356	300,382	19,728,738	19,357,933	301,417	19,659,350
Government	4,640,851	-	4,640,851	1,741,839	-	1,741,839
Financial institutions	5,432,391	1,166,205	6,598,596	5,795,593	2,325,129	8,120,722
Manufacturing	2,275,492	123,976	2,399,468	2,459,749	118,373	2,578,122
Services	26,979,736	4,658,219	31,637,955	27,052,745	4,437,934	31,490,679
Others	1,245	-	1,245	42,033	-	42,033
	120,782,100	8,286,207	129,068,307	111,517,051	9,325,498	120,842,549
Less: Allowance for impairment			(6,296,437)			(4,232,257)
Total			122,771,870			116,610,292

10 Derivative financial instruments

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

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

Forward and Futures transactions

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

Swap transactions

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

Option transactions

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

Fair value measurement models

Derivative contracts can be exchange traded or over-the-counter (OTC). The Bank values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Bank uses a variety of inputs, including contractual terms, market prices, yield curves, and other reference market data. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps, and options, model inputs can generally be verified and model selection conforms to market best practice.

Certain OTC derivatives trade in less liquid market with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Bank only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations, or other empirical market data. In the absence of such evidence, management best estimates are used.

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

At December 31, 2010	Fair Values Assets AED'000	Liabilities AED'000
Derivatives held for trading		
Interest rate and cross currency swaps	3,132,076	3,078,142
Options	160,063	164,061
Commodity and Energy swaps	53,348	46,579
Exotic swaps	2,091	1,673
Swaptions	25,628	25,628
	3,373,206	3,316,083
Derivatives held as fair value hedges		
Interest and cross currency swaps	215,767	-
Derivatives held as net investment hedges		
Forward foreign exchange contracts	-	171,681
	3,588,973	3,487,764

At December 31, 2009	Fair Values Assets AED'000	Liabilities AED'000
Derivatives held for trading		
Forward foreign exchange contracts	687,618	688,361
Interest rate and cross currency swaps	3,466,387	3,447,272
Options	267,054	265,910
Futures	5,309	3,790
Commodity and Energy swaps	55,868	40,950
Exotic swaps	13,024	12,335
	4,495,260	4,458,618
Derivatives held as fair value hedges		
Interest and cross currency swaps	457,759	179,280
Derivatives held as net investment hedges		
Forward foreign exchange contracts	-	51,591
	4,953,019	4,689,489

The net hedge ineffectiveness losses relating to the fair value and net investment hedges amounting to AED 527 thousand (2009 - Losses of AED 16,684 thousand) have been recognised in the consolidated income statement under " Net gain on dealing in derivatives".

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Bank's independent credit assessment.

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

11 Investment securities

2010	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments Quoted:				
Floating rate notes (FRNs)	484,535	-	7,346	491,881
Collateralised debt obligations (CDOs)	-	-	30,921	30,921
Equity instruments	12,242	-	-	12,242
Bonds	2,973,108	635,257	1,209,852	4,818,217
Mutual funds	39,149	-	-	39,149
Government securities	1,233,093	1,145,648	230,403	2,609,144
Total Quoted	4,742,127	1,780,905	1,478,522	8,001,554
Unquoted:				
Equity instruments	194,035	-	343	194,378
Mutual funds	67,206	-	-	67,206
Total Unquoted	261,241	-	343	261,584
Total available for sale investments	5,003,368	1,780,905	1,478,865	8,263,138

2009	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments Quoted:				
Floating rate notes (FRNs)	-	-	58,644	58,644
Collateralised debt obligations (CDOs)	-	-	210,706	210,706
Equity instruments	13,011	-	335	13,346
Bonds	1,837,706	2,057	52,046	1,891,809
Government securities	402,542	379,000	313,783	1,095,325
Total Quoted	2,253,259	381,057	635,514	3,269,830
Unquoted:				
Floating rate notes (FRNs)	-	-	144,988	144,988
Equity instruments	203,746	-	66	203,812
Bonds	687,319	-	-	687,319
Mutual funds	66,795	-	-	66,795
Total Unquoted	957,860	-	145,054	1,102,914
Total available for sale investments	3,211,119	381,057	780,568	4,372,744

At December 31, 2010 Bonds in Quoted investment include Bonds of fair value AED 1,006,116 thousand (December 31, 2009 : AED 547,821 thousand) in public sector companies.

Of the unquoted investments, equity instruments with carrying value of AED 37,079 thousand (December 31, 2009 - AED 37,137 thousand) have been carried at amortised cost since the fair value cannot be measured reliably in absence of any observable market or any other relevant information.

The Bank hedges interest rate risk on certain fixed rate investments through Interest rate swaps and designates these as fair value hedges. The fair value of these interest rate swaps at December 31, 2010 amounting to AED 48,286 thousand (December 31, 2009 - AED Nil). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement under 'Net gain on dealing in derivatives'.

The Bank enters into repurchase agreements and total return swap agreements whereby Bonds were pledged and held by counter parties as collateral. The risks and rewards relating to the investments pledged will remain with the Bank. The following table reflects the carrying value of these Bonds and the associated financial liabilities:

	2010		2009	
	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Total return swaps	625,232	622,374	616,521	636,394
Repurchase financing	603,645	440,760	578,244	440,760
	1,228,877	1,063,134	1,194,765	1,077,154

The movement in investment securities is as follows:

	2010 AED'000	2009 AED'000
Fair value at January 1	4,372,744	3,422,794
Acquisitions	6,259,523	2,471,876
Disposals	(2,398,981)	(1,206,076)
Transfer from investment in subsidiary to available for sale investments (Note 51)	39,079	-
Fair value adjustments	239,932	441,715
Investments written off during the year	-	(87,529)
Transfer from investment in associate (Note 12)	-	80,000
Transfer to investment in associate (Note 12)	-	(116,325)
Elimination upon acquisition of controlling interest in an investment	-	(100,000)
Exchange difference	17	6,398
Impairment loss	(249,176)	(540,109)
Balance at December 31	8,263,138	4,372,744

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

With effect from June 30, 2009, the Bank increased its interest and gained significant influence on ADCB MSCI U.A.E. Index Fund. The Fund was transferred from investment available-for-sale to investment in associates (Note 12).

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

The nominal value and fair value of these securities at December 31, 2010 amounted to AED 421,872 thousand and AED 38,267 thousand respectively (December 31, 2009 - AED 933,249 thousand and AED 414,338 thousand respectively). These securities have been negatively impacted by the global financial crisis and subsequent recession that stemmed from the U.S.A. subprime situation, corporate credit events and corporate insolvencies in both the U.S.A. and Europe, as well as ongoing liquidity shortages. The continued uncertainty in long-term outlook for the global economy and increased volatility in credit default spreads also continues to negatively impact fair values. The above exposure is net of impairment loss amounting to AED 383,327 thousand (2009 - AED 404,663 thousand) against the total above exposure.

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

The Bank has appointed an independent advisor of international repute to act as asset manager and advisor to the portfolio of structured investments.

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

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

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

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

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

12 Investments in associates

	2010 AED'000	2009 AED'000
Name of associate		
RHB Capital Berhad	5,253,664	4,474,784
Al Nokhitha Fund	71,330	73,150
ADCB MSCI U.A.E. Index Fund	33,205	34,725
Carrying value	5,358,199	4,582,659

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

Name of associate	Principal activities	Country of incorporation	Ownership interest 2010	2009
(a) RHB Capital Berhad	Wholesale, retail and Islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	25%	25%
(b) Al Nokhitha Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market and in any other recognised stock exchanges of the GCC countries.	UAE	21%	22%
(c) ADCB MSCI U.A.E. Index Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market, Dubai International Financial Exchange determined by MSCI UAE Index ("Index Securities").	UAE	29%	30%

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

The cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of the acquisition amounting to AED 2,048,390 thousand was identified as goodwill and included in the carrying value of investment in associate. Management has assessed the total carrying value of investment in associate for impairment on below basis and as detailed in Note 5.4 and determined that no impairment has occurred.

Value in use is calculated by discounting management's next five year cash flow projections of the associate. The cash flow projections for first three are years based on current economic conditions and plans approved by the associate's management and a steady growth rate discounted using Gordon's Growth model in perpetuity of 3% was assumed in calculating at free cashflows for the remaining 2 year period. The discount rate used to discount the cash flows is derived using a Capital Asset Pricing Model ('CAPM'). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement.

The Bank's share of profit of associate is adjusted for amortization of tangible and intangible assets identified during goodwill assessment and also appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRSs.

The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at December 31, 2010 amounted to AED 5,592,080 thousand (December 31, 2009 - AED 3,061,303 thousand).

The Bank partially hedged its currency translation risk in net investment in RHB Capital Berhad through foreign exchange forward contracts and designated these contracts as hedging derivatives. These hedges are designated as hedge of a net investment in a foreign operation. The hedging instruments resulted in cumulative losses of AED 543,379 thousand (December 31, 2009 - losses of AED 107,360 thousand) which have been recognised in other comprehensive income. These losses will affect the consolidated income statement in full or partial on disposal of the investment in associate. No such losses have been reclassified from equity to consolidated income statement as there was no disposal of the investment in associate during the year.

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

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

The latest available financial information in respect of Bank's associates are as of September 30, 2010 and December 31, 2010 and are summarised as follows:

	2010 AED'000	2009 AED'000
Total assets	151,896,104	129,410,979
Total liabilities	139,873,139	119,159,172
Net assets	12,022,965	10,251,807
Bank's share in net asset of associates	2,996,403	2,558,682
Total interest and other operating income	3,533,228	4,195,250
Total profit for the period	1,234,297	1,429,463
Bank's share in profit of associates	308,680	356,550
Bank's share in contingent liabilities of associates	22,109,530	18,856,992

13 Investment properties

	Completed and in use AED'000	Under development AED'000	Total AED'000
At January 1, 2009	632,492	-	632,492
Decrease in fair value	(83,000)	-	(83,000)
At January 1, 2010	549,492	-	549,492
Additions during the year	-	73,583	73,583
Decrease in fair value	(116,412)	-	(116,412)
Transfer to property and equipment, net	(217,471)	-	(217,471)
At December 31, 2010	215,609	73,583	289,192

The Bank engages more than one external independent valuers to assess the fair value of the Bank's investment properties. In addition, the Bank also applies internal discounted cash flow valuation techniques using assumptions on future rental and discount rates. The external valuers are of international repute possessing relevant experience and requisite qualification in the valuation of properties. The effective date of the valuation is December 31, 2010.

The valuation methodologies considered by the external valuer's include

a) Direct Comparable method : This method seeks to determine the value of the property from transactions of comparable properties

b) Residual method : This method is used to assess the value of the property with a development potential where there is inadequate comparable evidence. This method is commonly used in the valuation of the site under development in the local market.

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

During the year the Bank has utilised a part of its investment property for its own operation. Accordingly, AED 217,471 thousand which represents the fair value of the investment property on the date of such change in use has been transferred to property and equipment, net. This transaction being a non-cash transaction has not been reflected in the consolidated statements of cash flows.

Details of rental income and direct operating expenses relating to investment properties are as follow:

	2010 AED'000	2009 AED'000
Rental income	13,859	18,914
Direct operating expenses	2,408	2,387

14 Other assets

	2010 AED'000	2009 AED'000
Interest receivable	1,237,727	607,052
Withholding tax	65,082	37,743
Prepayments	77,390	121,985
Clearing receivables	1,848	106
Acceptances	9,367,982	4,631,510
Others	1,739,128	375,891
	12,489,157	5,774,287

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

15 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1,2009	395,577	64,857	117,664	223,085	120,310	921,493
Exchange difference	-	-	463	17	-	480
Additions during the year	5,510	141	2,642	7,494	295,309	311,096
Transfers	5,074	12,778	12,694	108,917	(139,463)	-
Transfer to expenses	-	-	-	-	(2,741)	(2,741)
Transfer to investment properties	(176)	(1,562)	(1,706)	(1,221)	-	(4,665)
At January 1,2010	405,985	76,214	131,757	338,292	273,415	1,225,663
Exchange difference	-	-	425	16	-	441
Additions during the year	111	439	4,176	2,755	108,213	115,694
Additions on acquisition (Note 50)	-	35,739	7,421	10,031	-	53,191
Transfers	375	156	2,319	22,096	(24,946)	-
Transfer to expenses	-	-	-	-	(1,587)	(1,587)
Transfer from investment property	217,471	-	-	-	-	217,471
Disposals during the year	-	-	(248)	(4,796)	-	(5,044)
At December 31, 2010	623,942	112,548	145,850	368,394	355,095	1,605,829
Accumulated depreciation						
At January 1,2009	131,276	23,167	66,449	124,760	-	345,652
Exchange difference	(4)	-	215	17	-	228
Charge for the year	15,912	6,591	14,842	51,738	-	89,083
Disposals during the year	(12)	-	(493)	(516)	-	(1,021)
At January 1,2010	147,172	29,758	81,013	175,999	-	433,942
Exchange difference	-	-	210	8	-	218
Charge for the year	20,560	9,534	14,865	56,816	-	101,775
Disposals during the year	-	-	(210)	(217)	-	(427)
At December 31, 2010	167,732	39,292	95,878	232,606	-	535,508
Carrying amount at December 31, 2010	456,210	73,256	49,972	135,788	355,095	1,070,321
At December 31, 2009	258,813	46,456	50,744	162,293	273,415	791,721

Capital work in progress mainly comprises of freehold properties under construction.

16 Intangible assets

	Goodwill AED'000	Credit card customer relationship AED'000	Wealth Management customer relationship AED'000	Core deposits intangible AED'000	Total AED'000
Amounts recognised on acquisition of business (Note 50)	18,800	12,700	18,000	112,700	162,200
Less: amortization during the period	-	(635)	(750)	(5,635)	(7,020)
At December 31, 2010	18,800	12,065	17,250	107,065	155,180

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the U.A.E. Based on the fair valuation exercise, the Bank has recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill (Note 50).

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes, which is not higher than the Bank's business segments as reported in Note 38.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

Cash generating unit	AED'000
Credit Cards	10,784
Loans	5,099
Overdrafts	94
Wealth Management Business	2,823
Total	18,800

As stated in Note 50, the management has conducted a purchase price allocation exercise. Since this purchase price allocation exercise was completed at the year end, the management believes that there is no indication of impairment on goodwill.

Other Tangible Assets

Customer relationships	Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in form of interest, fees and commission.
Core deposit intangible	The value of core deposit intangible asset arises from the fact that the deposit base of the bank represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/ money market funding represents the value of the core deposit intangible.

17 Due to banks

	2010 AED'000	2009 AED'000
Current and demand deposits	1,001,602	523,878
Deposits - banks	3,840,263	4,214,323
	4,841,865	4,738,201

18 Deposits from customers

	2010 AED'000	2009 AED'000
By category		
Call and demand deposits	21,440,127	17,510,668
Savings deposits	1,565,403	1,271,803
Time deposits	67,041,989	56,607,806
Long term government deposits (Note 9)	470,865	495,150
Islamic product related deposits	14,984,133	7,266,047
Euro commercial papers	631,668	3,148,483
	106,134,185	86,299,957
By sector		
Retail	24,171,282	20,682,752
Corporate	59,550,264	43,579,493
Government	22,412,639	22,037,712
	106,134,185	86,299,957

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

The Bank hedges certain deposits from customers for interest rate and foreign currency exchange risk through cross currency swaps and designated these instruments as fair value hedges. The fair value of these cross currency swaps at December 31, 2010 amounted AED 215,932 thousand (December 31, 2009 - AED Nil). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement under 'Net gain on dealing in derivatives'.

Islamic product related deposits include the following:

	2010 AED'000	2009 AED'000
Product		
Mudaraba savings and deposits	974,371	1,268,596
Wakala deposits	6,274,542	1,608,716
Murabaha deposits	6,886,326	3,630,761
Wadiah	848,894	757,974
	14,984,133	7,266,047

Profit distributed to Wakala deposit holders during the year amounted to AED 186,269 thousand (2009 - AED 129,976 thousand).

Profit distribution for Investment Account Holders

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

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

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

19 Mandatory convertible securities

In 2008, the Bank issued mandatory convertible securities ("MCS") with nominal value amounting to AED 4,800,000 thousand that are convertible into new ordinary registered shares at the end of the third year from the date of issue. The U.A.E. Central Bank approved that the MCS can be considered for Tier 1 Capital adequacy regulation requirements and accordingly included in capital adequacy computation (Note 49). Interest is payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, up and until the conversion date. The conversion rate at December 31, 2010 was AED 6.11 per share (December 31, 2009 - AED 6.11 per share). MCS are subordinated to all senior obligations of the Bank, including Tier 2 loan, but rank pari passu with all other pari passu Tier 1 obligations of the issuer, including the Ministry of Finance Capital Notes and constitute direct and unsecured obligations of the Bank and rank pari passu among themselves.

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

	AED'000
Proceeds of issue	4,800,000
Issue costs	(21,635)
Net proceeds received	4,778,365
Liability component on initial recognition	(144,482)
Equity component on initial recognition	4,633,883

	2010 AED'000	2009 AED'000
Liability component	109,049	168,435
Interest expense for the year	98,261	153,296
Interest paid during the year	(178,179)	(212,682)
	29,131	109,049

The interest charged for the year is calculated by applying an effective interest rate of 2.05 % p.a. (2009 - 2.08%). The liability component is measured at amortised cost.

20 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2010 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	144,257	-	144,257
	Hong Kong Dollar (HKD)	47,363	94,333	-	141,696
	Japanese Yen (JPY)	155,388	-	-	155,388
	Malaysian Ringitt (MYR)	-	-	868,261	868,261
	Pound Sterling (GBP)	3,500,001	-	-	3,500,001
	Slovak Koruna (SKK)	-	103,758	-	103,758
	South African Rand (ZAR)	-	51,299	-	51,299
	Swiss Franc (CHF)	837,946	-	-	837,946
	U.A.E. Dirham (AED)	1,300,000	1,253,000	-	2,553,000
	US Dollar (US$)	73,460	-	3,673,000	3,746,460
		5,914,158	1,646,647	4,541,261	12,102,066
Syndicated loans	US Dollar (US$)	550,950	6,978,700	-	7,529,650
	Euro (EUR)	-	328,015	-	328,015
Borrowings through total return swaps	US Dollar (US$)	-	-	429,374	429,374
	U.A.E. Dirham (AED)	-	-	193,000	193,000
Borrowings through repurchase agreements	US Dollar (US$)	-	-	440,760	440,760
		6,465,108	8,953,362	5,604,395	21,022,865
Fair value adjustment on short and medium term borrowings being hedged					(3,171)
					21,019,694

Included in short and medium term borrowings AED 9,803,618 thousand adjusted for fair values arising due to risks hedged. These borrowings have been hedged using cross currency swaps. The cross currency swaps are designated as fair value hedges.

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

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

Included in short and medium term borrowings AED 2,523,792 thousand adjusted for fair values arising due to risks hedged. These borrowings have been hedged using cross currency swaps. The cross currency swaps are designated as fair value hedges.

Interest on unsecured notes are payable quarterly in arrears and the coupon rates as at December 31, 2010 are as follows:

Currency	Within 1 year	1-3 years	3-5 years
AUD	-	3 months AUD-BBSW plus 30 basis points	-
HKD	3 months HIBOR offer rate plus 35 basis points	3 months HIBOR offer rate plus 29 basis points	-
JPY	Fixed rate of 1.66% p.a.	-	-
GBP	Fixed rate of 5.625% p.a.	-	-
SKK	-	3 months BRIBOR plus 11 basis points	-
ZAR	-	3 months JIBAR plus 41 basis points	-
CHF	Fixed rate of 2.76% p.a	-	-
MYR	-	-	Fixed rate of 5.2% p.a.
AED	3 months EIBOR plus 250 basis points	Fixed rate of 6% p.a	-
US$	3 months LIBOR plus 30 to 110 basis points	-	Fixed rate of 4.75% p.a.

Interest on the syndicated loans are payable in monthly coupons in arrears with 25 basis points over 1 month LIBOR and quarterly coupons in arrears with 27.5 basis points to 185 basis points over 3 months LIBOR. The Bank has option to roll over the syndicated loan for a further period of two years from the date of maturity.

Interest on borrowings through total return swaps are payable in quarterly coupons in arrears with 300 basis points over 3 months LIBOR and EIBOR and half yearly coupons in arrears with 300 basis points over 6 months LIBOR.

Interest on borrowings through repurchase agreements are payable in half yearly coupons in arrears with 86 to 128 basis points over 6 months LIBOR.

21 Long term borrowings

Instrument	Currency	2010 AED'000	2009 AED'000
Unsecured notes	Turkish Lira (TRY)	94,003	90,204
	U.A.E. Dirham (AED)	500,000	500,000
	Malaysian Ringitt (MYR)	476,472	-
	US Dollar (US$)	73,460	73,460
		1,143,935	663,664
Subordinated floating rate notes	US Dollar (US$)	1,172,789	1,328,891
Tier 2 loan	U.A.E. Dirham (AED)	6,617,456	6,617,456
Fair value adjustment on long term borrowings being hedged		(28,071)	9,483
		8,906,109	8,619,494

Included in long term borrowings AED 570,475 thousand (2009 - AED 90,204 thousand) adjusted to fair value due to risks hedged . These borrowings have been hedged using cross currency swaps. The cross currency swaps are designated as fair value hedges.

Interest on unsecured notes are payable in arrears and the coupon rates as at December 31, 2010 are as follows:

Currency	Over 5 years
TRY	Fixed rate of 12.75% p.a.
AED	Fixed rate of 6% p.a.
MYR	Fixed rate of 5.35% p.a.
US$	Fixed rate of 5.3875% p.a.

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

Tier 2 loan

In 2008, the U.A.E. federal government provided liquidity support in the form of new government deposits to the U.A.E.'s major commercial banks, including the Bank. Late in 2008, the U.A.E. federal government offered to convert these deposits into Tier 2 qualifying loans. In March 2009, the Bank accepted this offer to convert AED 6,617,456 thousand government deposits into Tier 2 qualifying loans. As per this offer, the Tier 2 qualifying loan will mature seven years from the date of the issue and will carry interest rate payable on a quarterly basis at a fixed rate of 4 percent per annum commencing March 31, 2009 for the first two years, 4.5 percent per annum for the third year, 5 percent per annum for the fourth year and 5.25 percent per annum for the remaining period. The terms also provide that the Bank will have a call option to repay the loans partially or fully at the end of five years from the date of issue. For regulatory purposes, the loan qualifies as Tier 2 capital.

22 Other liabilities

	2010 AED'000	2009 AED'000
Interest payable	1,281,661	992,049
Employees' end of service benefits	166,863	130,973
Accounts payable and other creditors	870,885	736,492
Clearing payables	12,704	606
Current income tax payable	9,232	3,231
Deferred income	245,450	263,881
Acceptances	9,367,982	4,631,510
Others	2,324,321	981,923
	14,279,098	7,740,665

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

The details of current income tax payable pertaining to Bank's foreign branch/subsidiary's operations are as follows:

Foreign branch/subsidiary	2010 AED'000	2009 AED'000
Indian branch operations	3,096	3,231
ADCB Holdings (Malaysia) Sdn Bhd - subsidiary	6,136	-
	9,232	3,321

The current income tax payable on the Indian branch operations has been calculated as per the Income tax regulations applicable in India.

The Malaysian subsidiary's current income tax payable has been calculated at the statutory tax rate of 25% of taxable profits of the subsidiary as applicable in Malaysia. There were no deferred tax assets and liabilities.

23 Share capital

	Authorised	Issued and fully paid	
		2010	2009
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	4,810,000	4,810,000	4,810,000

As at December 31, 2010, Abu Dhabi Investment Council holds 64.843% (December 31, 2009: 64.843%) of the Bank's issued and fully paid up share capital.

As at December 31, 2010, of the total issued shares of the Bank, its associates held 7,585 thousand shares (December 31, 2009 - 5,833 thousand shares).

24 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. Accordingly an amount of AED 38,100 thousand has been transferred to statutory reserve during the year (December 31, 2009 - AED Nil). The statutory reserve is not available for distribution.

Legal reserve

In accordance with the Article 255 of 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. Accordingly an amount of AED 38,100 thousand has been transferred to legal reserve during the year (December 31, 2009 - AED Nil). The legal reserve is not available for distribution.

General reserve

In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year may required to be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders. No such reserves have been transferred from net profit for the year.

Contingency reserve

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

25 Employees' incentive plan shares, net

The Bank has established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank when they meet the vesting conditions. These shares were acquired from the stock market by the Bank at the prevailing market price on the acquisition dates. These shares are held by ACB LTIP (IOM) Limited, a consolidated subsidiary, until vesting conditions are met. The Bank's Nomination/Remuneration and HR Committee has determined and approved the shares granted to management level employees based on the Bank's key performance indicators and with respect to the annual salary of each employee.

For the year ended December 31, 2010, the Bank had two incentive plans in force as described below.

Effective date of the grant	January 1, 2008	January 1, 2010
Number of shares granted	14,346,260	27,058,292
The fair value of the granted shares at the grant date in AED thousands	38,131	47,085
Vesting Date	December 31, 2010	December 31, 2012

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

The movement of plan shares is as follows:

	2010	2009
Shares outstanding at January 1	13,173,328	14,346,260
Shares granted during the year	27,058,292	-
Exercised during the year	-	(1,172,932)
Forfeited during the year	(1,998,168)	-
Outstanding at December 31	38,233,452	13,173,328
Exercisable at December 31	11,704,633	-
Amount of "Plan" costs recognised in the statement of income (AED'000)	23,846	12,270

26 Capital notes

In February 2009, as part of the Government's strategy to respond to the global financial crisis, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"), along with such capital notes from other major commercial banks in Abu Dhabi.

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

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

27 Interest income

	2010 AED'000	2009 AED'000
Loans and advances to banks	184,105	139,828
Loans and advances to customers	6,793,868	6,543,802
Investment securities	180,921	161,246
	7,158,894	6,844,876

28 Interest expense

	2010 AED'000	2009 AED'000
Deposits from banks	115,111	220,423
Deposits from customers	2,525,880	2,438,236
Debt securities issued and subordinated liabilities	423,681	478,426
Interest on securities and notes	443,289	354,619
	3,507,961	3,491,704

29 Net fees and commission income

	2010 AED'000	2009 AED'000
Fees and commission income		
Retail banking fees	550,725	475,156
Corporate banking fees	402,405	450,294
Brokerage fees	5,149	18,436
Fees from trust and other fiduciary activities	31,891	67,246
Other fees	52,392	40,660
Total fees and commission income	1,042,562	1,051,792
Fees and commission expenses	(86,309)	(66,168)
Net fees and commission income	956,253	985,624

30 Net gains from dealing in foreign currencies

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

31 Net (loss)/gain from trading and investment securities

	2010 AED'000	2009 AED'000
Net gain from trading securities	12,689	7,497
Net (loss)/gain from sale of available for sale investments	(17,133)	64,081
	(4,444)	71,578

32 Impairment allowances

	2010 AED'000	2009 AED'000
Impairment allowance on doubtful loans and advances, net of recoveries (Note 9)	2,859,578	2,968,315
Impairment allowance on investment securities	249,176	540,109
Impairment allowance on credit default swaps (Note 37)	178,317	244,550
	3,287,071	3,752,974

33 Earnings per share

Basic

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

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

	2010 AED'000	2009 AED'000
Net profit for the year/(loss) attributable to the equity holders of the Bank	381,001	(559,448)
Add: Interest on MCS for the year	98,261	153,296
Less: Coupons paid on capital notes	(243,333)	(120,000)
Net adjusted profit/(loss) for the year attributable to the equity holders of the Bank (a)	235,929	(526,152)
Weighted average number of shares in issue throughout the year (000's)	4,810,000	4,810,000
Add: Weighted average number of shares resulting from conversion of MCS	785,597	785,597
Less: Weighted average number of shares resulting from Employees' incentive share plan	(35,626)	(13,564)
Weighted average number of potential equity shares in issue during the year (b)	5,559,971	5,582,033
Basic earnings/(loss) per share (AED) (a)/(b)	0.04	(0.09)

34 Operating leases

Bank as lessee

Leasing arrangements

Operating leases relates mainly to leases of branch premises of the Bank with lease terms between 1 to 2 years. The Bank does not have an option to purchase the leased premises at the expiry of the lease periods.

Payments recognised as an expense	2010 AED'000	2009 AED'000
Minimum lease payments	48,089	47,493

Non-cancellable operating lease commitments	2010 AED'000	2009 AED'000
Not later than one year	15,627	14,139
Later than 1 year and not later than 5 years	2,672	1,225
	18,299	15,364

Bank as lessor

Operating leases relate to the investment property owned by the Bank with lease terms of 1 year, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Bank from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

Non-cancellable operating lease receivables	2010 AED'000	2009 AED'000
Not later than one year	15,547	22,216

35 Cash and cash equivalents

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

	2010 AED'000	2009 AED'000
Cash and balances with Central Banks	5,887,630	4,139,015
Deposits and balances due from banks	18,397,534	18,348,988
Due to banks	(4,841,865)	(4,738,201)
	19,443,299	17,749,802
Less: Deposits and balances due from banks and cash and balances with Central Banks – with original maturity more than 3 months	(5,218,400)	(919,535)
Add: Due to banks – with original maturity more than 3 months	2,451,385	2,543,652
	16,676,284	19,373,919

36 Related party transactions

The Bank enters into transactions with major shareholders, Funds under management, 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.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 64.843% (December 31, 2009: 64.843%) of the Banks issued and fully paid up share capital (Note 23). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to the law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances included in the consolidated statement of financial position are as follows:

	2010 AED'000	2009 AED'000
Loans and advances		
To Directors	99,065	30,296
To Key Managers	16,177	30,776
To entities controlled by the ultimate controlling party	18,022,630	13,838,567
	18,137,872	13,899,639

No impairment allowances have been recognised against loans and advances extended to related parties or contingent liabilities issued in favor of related parties during the year ended December 31, 2010 (December 31, 2009: AED Nil).

	2010 AED'000	2009 AED'000
Deposits from customers		
From Directors	41,240	297,470
From Major Shareholders	-	2,368,396
From Key Managers	15,745	16,939
From entities controlled by the ultimate controlling party	24,282,836	24,748,810
	24,339,821	27,431,615
Mandatory convertible securities (Note 19)	800,000	800,000
Tier 2 loan (Note 21)	6,617,456	6,617,456
Capital notes (Note 26)	4,000,000	4,000,000
Commitments and contingent liabilities:		
To Directors	5,003	6,064
To entities controlled by the ultimate controlling party	242,392	211,067
	247,395	217,131

Related party transactions that are included in the consolidated income statement are as follows:

	2010 AED'000	2009 AED'000
Interest, fees and commission income:		
- Directors	2,336	410
- Key Managers	638	1,650
- Trust activities	54,439	60,068
- Entities controlled by the ultimate controlling party	527,537	410,530
	584,950	472,658

Interest rates earned on loans and advances extended to related parties during the year have ranged from 0.75% to 6.15% per annum (December 31, 2009: 0.58% to 5.91% per annum).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.50% to 2.5% per annum (December 31, 2009: 0.5% to 2.5% per annum)

	2010 AED'000	2009 AED'000
Interest expenses:		
- Directors	1,025	17,451
- Major Shareholders	9,715	31,496
- Key Managers	673	472
- Entities controlled by the ultimate controlling party	787,961	535,899
	799,374	585,318

Interest rates incurred on deposits on customers placed by related parties during the year have ranged from zero interest (non - interest bearing accounts) to 6.50% (December 31, 2009: zero interest on non-interest bearing accounts to 6.50% per annum).

	2010 AED'000	2009 AED'000
Interest expenses on Mandatory convertible securities	16,373	29,565
Interest expenses on Tier 2 loan	364,201	203,027
Coupon paid on Capital Notes	243,333	120,000

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

	2010 AED'000	2009 AED'000
Short term benefits	45,854	30,448
Termination benefits	2,232	1,284
Share-based payments	4,099	1,528
	52,185	33,260

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

37 Commitments and contingent liabilities

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

	2010 AED'000	2009 AED'000
Commitments on behalf of customers		
Letters of credit	2,261,976	4,107,386
Guarantees	13,705,166	16,077,519
Commitments to extend credit - Revocable	5,590,046	4,791,152
Commitments to extend credit - Irrevocable	8,257,407	18,820,730
Credit default swaps	412,295	2,007,017
	30,226,890	45,803,804
Others		
Commitments for future capital expenditure	425,319	190,920
Commitments to invest in investment securities	246,380	245,409
Commitments to invest in associate	387,133	-
	31,285,722	46,240,133

Credit-related commitments

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

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

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

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

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

The Bank's gross exposure and net of provision exposure in credit default swaps amounted to AED 495,855 thousand and 412,295 thousand respectively (December 31, 2009 gross exposure and net of provision exposure - AED 2,222,454 thousand and AED 2,007,017 thousand respectively). During the year, an amount of AED 178,317 thousand (Note 32) has been provided (December 31, 2009 - AED 244,550 thousand) towards expected calls against impaired credit default swaps based on the independent advisor report and recommendations as discussed in Note 11.

38 Business segments

Information reported to the Management Executive Committee of the Bank as the Chief operating decision maker of the Bank, for the purpose of resource allocation and assessment of performance is more specifically focused on the business segments of the Bank. The business segments as reported under IFRS 8 are wholesale banking, consumer banking and investment and treasury banking. Assets, liabilities and performance information that are not allocated to segments are presented in the following table as corporate support.

Wholesale banking comprises of business banking, cash management, trade finance, corporate finance, investment banking, Indian operations, infrastructure and strategic client operations.

Consumer banking comprises of consumer, retail, wealth management and Islamic operations.

Investments and treasury comprises of central treasury operations, management of the Bank's investment portfolio and interest rate, currency and commodity derivative portfolio.

The above segments are supported by other departments termed as corporate support and include risk, human resources, operations, finance, legal, internal audit and central management. Corporate support also includes a subsidiary - Abu Dhabi Commercial Properties LLC which comprises of the Bank's real estate management and service operations. Assets, liabilities and performance information that are not allocated to segments are presented as corporate support.

The following summary describes the operations in each of the Bank's reportable segments:

Wholesale banking includes loans, deposits and other transactions and balances with corporate customers.

Consumer banking includes loans, deposits and other transactions and balances with retail customers and funds management activities.

Investments and treasury undertakes the Bank's funding and centralized risk management activities thorough borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities and trading and corporate finance activities.

The accounting policies of the reportable segments are the same as the Bank's accounting policies as described in Note 4.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Executive Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter- segment pricing is determined on an arm's length basis.

The following is an analysis of the Bank's revenue and results by operating segment for the year 2010:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Corporate support AED'000	Total AED'000
Net interest income after distribution to depositors	1,760,548	1,184,590	643,758	93,309	3,682,205
Non-interest income	576,339	511,035	218,618	11,409	1,317,401
Share of profit of associates	(3,341)	339,635	-	-	336,294
Impairment allowance on doubtful loans and advances, net of recoveries	(941,252)	(1,918,326)	-	-	(2,859,578)
Impairment allowances on investment securities and credit default swaps	-	(29,232)	(398,261)	-	(427,493)
Depreciation and amortisation	(80,316)	(14,434)	(11,362)	(2,683)	(108,795)
Other operating expenses	(950,522)	(410,794)	(117,305)	(61,566)	(1,540,187)
Net profit before taxation	361,456	(337,526)	335,448	40,469	399,847
Taxation	-	(9,232)	-	-	(9,232)
Net profit after taxation	361,456	(346,758)	335,448	40,469	390,615
Capital expenditure	-	-	-	241,103	241,103
As at December 31, 2010					
Segment assets	67,600,302	72,500,848	36,720,276	1,449,768	178,271,194
Segment liabilities	27,016,819	58,443,650	73,172,986	64,391	158,697,846

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

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Corporate support AED'000	Total AED'000
Net interest income after distribution to depositors	1,363,261	821,291	1,014,314	77,277	3,276,143
Non-interest income	506,823	563,144	171,913	41,621	1,283,501
Share of profit of associates	8,824	214,338	-	-	223,162
Impairment allowance on doubtful loans and advances, net of recoveries	(961,222)	(2,007,093)	-	-	(2,968,315)
Impairment allowances on investment securities and credit default swaps	(147,907)	-	(636,752)	-	(784,659)
Depreciation and amortisation	(66,823)	(11,566)	(8,457)	(2,237)	(89,083)
Other operating expenses	(861,579)	(402,909)	(124,536)	(61,293)	(1,450,317)
Net profit before taxation	(158,623)	(822,795)	416,482	55,368	(509,568)
Taxation	-	(3,231)	-	-	(3,231)
Net profit after taxation	(158,623)	(826,026)	416,482	55,368	(512,799)
Capital expenditure	-	-	-	311,096	311,096
As at December 31, 2009					
Segment assets	59,106,435	68,474,440	31,180,835	1,447,068	160,208,778
Segment liabilities	23,741,334	34,413,534	82,679,810	283,981	141,118,659

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than property and equipment. Goodwill is allocated to reportable segment as described in Note 16.
- all liabilities are allocated to reportable segments.

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

December 31, 2010	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Corporate support AED'000	Total AED'000
External	4,128,580	2,691,921	(1,493,181)	8,580	5,335,900
Inter-segment	(1,795,034)	(656,661)	2,355,557	96,138	-
Total	2,333,546	2,035,260	862,376	104,718	5,335,900
December 31, 2009					
External	3,616,539	3,103,863	(1,968,655)	31,059	4,782,806
Inter-segment	(1,737,631)	(1,505,090)	3,154,882	87,839	-
Total	1,878,908	1,598,773	1,186,227	118,898	4,782,806

Geographical information

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

	Domestic		International	
Income	2010 AED'000	2009 AED'000	2010 AED'000	2009 AED'000
Net interest income after distribution to depositors	3,663,440	3,261,851	18,765	14,292
Operating income	1,286,777	1,281,615	30,624	1,886
Share in profit of associates	(3,341)	8,824	339,635	214,338

	As at December 31		As at December 31	
Non-current assets	2010 AED'000	2009 AED'000	2010 AED'000	2009 AED'000
Investment properties	289,192	549,492	-	-
Property and equipment, net	1,064,670	786,736	5,651	4,985
Intangible assets	155,180	-	-	-

39 Financial instruments

39.1 Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments in IAS 39.

December 31, 2010	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	-	-	-	-	5,887,630	5,887,630
Deposits and balances due from banks	-	-	-	-	18,397,534	18,397,534
Loans and advances, net	-	-	-	122,771,870	-	122,771,870
Derivative financial instruments	3,373,206	215,767	-	-	-	3,588,973
Investment securities	-	-	8,263,138	-	-	8,263,138
Total financial assets	3,373,206	215,767	8,263,138	122,771,870	24,285,164	158,909,145
Liabilities						
Due to banks	-	-	-	-	4,841,865	4,841,865
Deposits from customers	-	-	-	-	106,134,185	106,134,185
Mandatory convertible securities – liability component	-	-	-	-	29,131	29,131
Short and medium term borrowings	-	-	-	-	21,019,694	21,019,694
Derivative financial instruments	3,316,083	171,681	-	-	-	3,487,764
Long term borrowings	-	-	-	-	8,906,109	8,906,109
Total financial liabilities	3,316,083	171,681	-	-	140,930,984	144,418,748

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

39.2 Fair value measurements recognised in the statement of financial position

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

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

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

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

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

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

For December 31, 2010	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets at FVTPL			
Trading securities	-	-	-
Derivative financial instruments	-	3,588,973	-
Available-for-sale financial assets			
Quoted	8,001,554	-	-
Unquoted	-	-	224,505
Total	8,001,554	3,588,973	224,505
Financial liabilities at FVTPL			
Derivative financial instruments	-	3,487,764	-

For December 31, 2009	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets at FVTPL			
Trading securities	86,561	-	-
Derivative financial instruments	-	4,953,019	-
Available-for-sale financial assets			
Quoted	3,269,830	-	-
Unquoted	-	-	1,065,777
Total	3,356,391	4,953,019	1,065,777
Financial liabilities at FVTPL			
Derivative financial instruments	-	4,689,489	-

There were no transfers into and out of the levels of hierarchy during the year in determining the fair value of financial instruments.

The Bank's OTC derivatives in the Trading Book are typically based Level 2 inputs that can be observed in the market, as well as some unobservable inputs, such as correlations and volatilities.

Reconciliation showing the movement in fair values of Level 3 available for sale investments for year 2010 is as follows:

	AED'000
January 1, 2010	1,065,777
Acquisitions	736
Matured/disposed during the year	(687,310)
Adjustment through comprehensive income	(9,710)
Impairment allowance	(144,988)
December 31, 2010	224,505

The net gain amounting to AED 2,974 thousand on disposal of Level 3 investments during the year has been recorded in consolidated income statement under "Net gain from trading and investment securities".

40 Credit risk frame work, measurement, monitoring and policies

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

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

As at reporting date, 32% of the net loans and advances is concentrated by 12 customers (December 31, 2009 – 30% is concentrated by 12 customers).

Management of credit risk

The Bank's credit risk management framework includes:

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

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

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

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

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

Credit risk measurement

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

The rating tools are kept under review and upgraded as necessary. The Bank is in the process of implementing a new solution for calculation of probability of default through best in practice tools that are Basel II compliant.

Risk limit control and mitigation policies

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

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits. Actual exposures against limits are monitored on a periodic 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 advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

(b) Derivatives

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

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

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

(c) Master netting arrangements

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

	2010			2009		
	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000
Deposits and balances due from banks	18,397,534	–	18,397,534	18,348,988	–	18,348,988
Trading securities	–	–	–	86,561	–	86,561
Loans and advances, net	122,771,870	–	122,301,005	116,610,292	–	116,115,142
Investment securities	8,263,138	246,380	8,509,518	4,372,744	245,409	4,618,153
Derivative financial instruments	3,588,973	–	3,588,973	4,953,019	–	4,953,019
Investments in associates	5,358,199	387,133	5,745,332	4,582,659	–	4,582,659
Other assets	12,489,157	–	12,424,075	5,774,287	–	5,738,244
Guarantees	–	13,705,166	13,393,698	–	16,077,519	15,763,100
Letters of credit	–	2,261,976	2,232,493	–	4,107,386	4,074,210
Irrevocable commitments to extend credit	–	8,257,407	8,257,407	–	18,820,730	18,820,730
Credit default swaps	–	412,295	412,295	–	2,007,017	2,007,017
Total	170,868,871	25,270,357	195,262,330	154,728,550	41,258,061	195,107,823

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

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

41.1 Geographic region

December 31, 2010	Domestic (U.A.E.) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	5,861,148	-	-	26,482	-	-	-	5,887,630
Deposits and balances due from banks	8,898,826	3,699,364		1,306,479	4,351,265	141,600	-	18,397,534
Loans and advances, net	114,469,216	4,598,380	348,344	1,014,795	666,944	703	1,673,488	122,771,870
Derivative financial instruments	2,100,826	61,062	3,198	80,385	798,194	413,467	131,841	3,588,973
Investment securities	5,003,368	1,780,905	-	230,402	184,005	1,064,426	32	8,263,138
Investments in associates	104,535	-	-	5,253,664	-	-	-	5,358,199
Investment properties	289,192	-	-	-	-	-	-	289,192
Other assets	11,231,997	446	24	82,926	102,034	1,071,184	546	12,489,157
Property and equipment, net	1,064,670	-	-	5,651	-	-	-	1,070,321
Intangibles assets	155,180	-	-		-	-	-	155,180
Total assets	149,178,958	10,140,156	351,566	8,000,784	6,102,442	2,691,380	1,805,907	178,271,194
Liabilities								
Due to banks	2,344,226	89,833	184,407	116,284	2,103,628	3,445	42	4,841,865
Deposits from customers	93,950,376	8,554,813	338,908	831,355	867,136	57,551	1,534,046	106,134,185
Mandatory convertible securities - liability component	29,131	-	-	-	-	-	-	29,131
Short and medium term borrowings	-	-	-	1,344,733	19,674,961		-	21,019,694
Derivative financial instruments	256,388			113,959	2,188,101	790,532	138,784	3,487,764
Long term borrowings	6,617,456	-	-	-	2,288,653	-	-	8,906,109
Other liabilities	12,849,827	18,416	148	232,536	101,609	1,076,474	88	14,279,098
Total liabilities	116,047,404	8,663,062	523,463	2,638,867	27,224,088	1,928,002	1,672,960	158,697,846
Equity	19,573,348	-	-	-	-	-	-	19,573,348
	135,620,752	8,663,062	523,463	2,638,867	27,224,088	1,928,002	1,672,960	178,271,194
Commitment and contingent liabilities	28,896,999	280,307	9,254	970,370	1,031,104	89,048	8,640	31,285,722

41.1 Geographic region (continued)

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

41.2 Industry sector

December 31, 2010	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	524,961	–	–	–	5,362,669	5,887,630
Deposits and balances due from banks	–	–	–	–	18,397,534	18,397,534
Loans and advances, net	56,712,498	38,230,225	16,103,142	4,640,851	7,085,154	122,771,870
Derivative financial instruments	2,181,175	130,612	–	–	1,277,186	3,588,973
Investment securities	813,559	–	3,349,945	2,609,144	1,490,490	8,263,138
Investments in associates	–	–	–	–	5,358,199	5,358,199
Investment properties	289,192	–	–	–	–	289,192
Other assets	10,925,993	48,949	–	61,512	1,452,703	12,489,157
Property and equipment, net	1,070,321	–	–	–	–	1,070,321
Intangible assets	155,180	–	–	–	–	155,180
Total financial assets	72,672,879	38,409,786	19,453,087	7,311,507	40,423,935	178,271,194
Liabilities						
Due to banks	–	–	–	–	4,841,865	4,841,865
Deposits from customers	33,671,502	24,172,182	12,765,756	22,412,639	13,112,106	106,134,185
Mandatory convertible securities – liability component	29,131	–	–	–	–	29,131
Short and medium term borrowings	–	–	–	–	21,019,694	21,019,694
Derivative financial instruments	28,759	16,681	–	–	3,442,324	3,487,764
Long term borrowings	–	–	–	6,617,456	2,288,653	8,906,109
Other liabilities	7,682,454	–	–	–	6,596,644	14,279,098
Total liabilities	41,411,846	24,188,863	12,765,756	29,030,095	51,301,286	158,697,846
Equity	19,573,348	–	–	–	–	19,573,348
Total liabilities and equity	60,985,194	24,188,863	12,765,756	29,030,095	51,301,286	178,271,194
Commitment and contingent liabilities	18,197,933	6,352,252	1,994,864	732,312	4,008,361	31,285,722

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

42 Interest rate risk framework, measurement and monitoring

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Bank's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, short and medium term borrowings, capital notes, long term borrowings and mandatory convertible securities fall under this category.

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

The effective interest rate (effective yield) of a monetary financial instrument is the rate of interest that, when used in a present value calculation, would result in the carrying amount of the instrument being equal to its future cash flows. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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

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

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

The Bank uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities accrue a floating rate of interest, such as deposits and loans generally repricing simultaneously, this provides a natural hedge which reduces exposure to changing levels of interest rates. Moreover, a majority of the Bank's assets and liabilities reprice with at least a yearly frequency or more frequently, thereby further limiting interest rate risk.

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2010 was as follows:

December 31, 2010	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	500,000	-	250,000	-	-	5,137,630	5,887,630
Deposits and balances due from banks	18,231,875	-	-	-	-	165,659	18,397,534
Loans and advances, net	106,357,089	7,241,308	645,679	2,524,672	12,299,559	(6,296,437)	122,771,870
Derivative financial instruments	2,858,940	457,126	126,024	128,039	18,844	-	3,588,973
Investment securities	4,366,713	3,485,705	63,362	18,904	15,479	312,975	8,263,138
Investments in associates	-	-	-	-	-	5,358,199	5,358,199
Investment properties	-	-	-	-	-	289,192	289,192
Other assets	-	-	-	-	-	12,489,157	12,489,157
Property and equipment, net	-	-	-	-	-	1,070,321	1,070,321
Intangibles assets	-	-	-	-	-	155,180	155,180
Total assets	132,314,617	11,184,139	1,085,065	2,671,615	12,333,882	18,681,876	178,271,194
Liabilities							
Due to banks	3,633,027	314,472	734,500	-	-	159,866	4,841,865
Deposits from customers	70,527,533	16,964,442	16,706,310	1,679,763	1,414	254,723	106,134,185
Mandatory convertible securities - liability component	-	-	-	-	-	29,131	29,131
Short and medium term borrowings	11,296,943	6,887,287	2,835,464	-	-	-	21,019,694
Derivative financial instruments	2,878,548	237,854	115,696	94,239	16,976	144,451	3,487,764
Long term borrowings	1,172,789	6,617,456	-	-	1,115,864	-	8,906,109
Other liabilities	-	-	-	-	-	14,279,098	14,279,098
Equity	-	-	-	-	-	19,573,348	19,573,348
Total liabilities and equity	89,508,840	31,021,511	20,391,970	1,774,002	1,134,254	34,440,617	178,271,194
On-balance sheet gap	42,805,777	(19,837,372)	(19,306,905)	897,613	11,199,628	(15,758,741)	-
Off-balance sheet gap	(8,497,306)	4,839,171	3,658,135	-	-	-	-
Total interest rate sensitivity gap	34,308,471	(14,998,201)	(15,648,770)	897,613	11,199,628	(15,758,741)	-
Cumulative interest rate sensitivity gap	34,308,471	19,310,270	3,661,500	4,559,113	15,758,741	-	-

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

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2009 was as follows:

December 31, 2009	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-inerest bearing items AED'000	Total AED'000
Assets							
Cash and balances with Central Banks	-	-	-	-	-	4,139,015	4,139,015
Deposits and balances due from banks	14,086,066	4,052,645	-	-	16,473	193,804	18,348,988
Trading securities	-	-	-	-	-	86,561	86,561
Loans and advances, net	95,198,570	11,535,059	780,765	2,638,034	11,253,007	(4,795,143)	116,610,292
Derivative financial instruments	2,259,146	453,260	114,830	832,630	835,395	457,758	4,953,019
Investment securities	929,819	643,820	2,130,436	172,742	14,942	480,985	4,372,744
Investments in associates	-	-	-	-	-	4,582,659	4,582,659
Investment properties	-	-	-	-	-	549,492	549,492
Other assets	-	-	-	-	-	5,774,287	5,774,287
Property and equipment, net	-	-	-	-	-	791,721	791,721
Total assets	112,473,601	16,684,784	3,026,031	3,643,406	12,119,817	12,261,139	160,208,778
Liabilities							
Due to banks	1,663,288	1,069,025	1,726,601	30,111	49,129	200,047	4,738,201
Deposits from customers	67,199,403	12,222,469	6,491,259	329,060	1,901	55,865	86,299,957
Mandatory convertible securities - liability component	109,049	-	-	-	-	-	109,049
Short and medium term borrowings	19,911,778	2,386,688	2,950,338	-	3,673,000	-	28,921,804
Derivative financial instruments	2,507,784	237,339	129,234	756,359	827,903	230,870	4,689,489
Long term borrowings	1,328,891	-	-	6,617,456	673,147	-	8,619,494
Other liabilities	-	-	-	-	-	7,740,665	7,740,665
Equity	-	-	-	-	-	19,090,119	19,090,119
Total liabilities and equity	92,720,193	15,915,521	11,297,432	7,732,986	5,225,080	27,317,566	160,208,778
On-balance sheet gap	19,753,408	769,263	(8,271,401)	(4,089,580)	6,894,737	(15,056,427)	-
Off-balance sheet gap	(5,166,258)	(563,528)	(1,359,863)	6,735,983	353,666	-	
Total interest rate sensitivity gap	14,587,150	205,735	(9,631,264)	2,646,403	7,248,403	(15,056,427)	-
Cumulative interest rate sensitivity gap	14,587,150	14,792,885	5,161,621	7,808,024	15,056,427	-	-

43 Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

The banks approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Banks reputation.

Liquidity risk management process

The assets and liabilities committee (ALCO) of the bank sets and monitors liquidity ratio and regularly revises and calibrates the 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:

- Monitoring of liquidity position on a daily/weekly/monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Bank can meet the required outflows.
- Regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested action.
- Ensuring regular compliance with the liquidity ratios such as "Advance to Stable Resources ratio" stipulated by Central Bank of UAE. Whilst the Central Bank of UAE allows a maximum of 1:1, the Bank has set a stricter internal ratio.
  - the amount of loans and advances together with the amount of interbank 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 definition is in line with the Central Bank of United Arab Emirates definitions of the Advances to Stable resources ratio.

- Monitoring composition of funding sources at granular level and has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total statement of financial position. Some of the ratios for monitoring are as follows:
- Euro Commercial Paper to Total Liabilities
- Wholesale Funds to Total Liabilities
- Money Market Deposits to Total Liabilities
- Core Funds to Total Liabilities
- Non-Core Funds to Total Liabilities

Tools for liquidity management

The Bank through its Treasury ensures that the bank has access to diverse sources of funding ranging from local customer deposits from retail/corporate customers to long term funding such as debt securities and subordinated liabilities.

Whilst the Bank's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities, this increases the liquidity risk of the bank and Treasury manages this risk by:

- Diversification of funding sources, and balance between long term and short term funding sources through borrowing under its Un-secured notes issue programs.
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process.
- Investing in various short-term or medium term but highly marketable assets such as Interbank deposits, Certificate of Deposit with Central Bank, Investment grade bonds that can be repurchased at short notice.

Further, the Bank also has the following facilities from UAE's Central Bank to manage its liquidity risk during critical times.

- Overdraft facility against its cash reserves at overnight rate at a spread of 150 basis points.
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points.
- Special liquidity facility for a maximum of seven days on renewable basis at 3 months EIBOR plus 50 basis points.
- Repo facility against identified investments securities bonds for a maximum period of seven days on renewable basis at overnight rate with a spread of 300 basis points.

None of the above Central Bank facilities are utilized and outstanding at the end of the year.

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

The maturity profile of the assets and liabilities at December 31, 2010 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	5,637,630	-	250,000	-	-	5,887,630
Deposits and balances due from banks	18,397,534	-	-	-	-	18,397,534
Loans and advances, net	20,554,001	4,064,011	6,343,661	20,140,605	71,669,592	122,771,870
Derivative financial instruments	59,112	184,096	132,977	744,086	2,468,702	3,588,973
Investment securities	92,818	67,040	556,962	1,539,537	6,006,781	8,263,138
Investments in associates	-	-	-	-	5,358,199	5,358,199
Investment properties	-	-	-	-	289,192	289,192
Other assets	11,182,574	140,815	57,155	44,135	1,064,478	12,489,157
Property and equipment, net	-	-	-	-	1,070,321	1,070,321
Intangible assets	-	-	-	-	155,180	155,180
Total assets	55,923,669	4,455,962	7,340,755	22,468,363	88,082,445	178,271,194
Liabilities and equity						
Due to banks	3,249,718	-	734,500	416,887	440,760	4,841,865
Deposits from customers	67,003,986	18,688,598	17,613,537	2,826,650	1,414	106,134,185
Mandatory convertible securities – liability component	-	29,131	-	-	-	29,131
Short and medium term borrowings	2,954,953	1,211,840	3,281,225	9,021,949	4,549,727	21,019,694
Derivative financial instruments	257,304	166,287	197,646	677,507	2,189,020	3,487,764
Long term borrowings	-	-	-	-	8,906,109	8,906,109
Other liabilities	13,046,266	107,285	50,698	10,371	1,064,478	14,279,098
Equity	-	-	-	-	19,573,348	19,573,348
Total liabilities and equity	86,512,227	20,203,141	21,877,606	12,953,364	36,724,856	178,271,194
Liquidity gap	(30,588,558)	(15,747,179)	(14,536,851)	9,514,999	51,357,589	-
Cumulative liquidity gap	(30,588,558)	(46,335,737)	(60,872,588)	(51,357,589)	-	-
Financial guarantees and Credit default swaps	10,400,482	1,609,077	734,890	1,165,776	207,236	14,117,461

The maturity profile of the assets and liabilities at December 31, 2009 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	4,139,015	–	–	–	–	4,139,015
Deposits and balances due from banks	18,348,988	–	–	–	–	18,348,988
Trading securities	86,561	–	–	–	–	86,561
Loans and advances, net	19,689,111	4,556,118	5,537,117	20,070,926	66,757,020	116,610,292
Derivative financial instruments	322,859	49,098	92,131	788,017	3,700,914	4,953,019
Investment securities	884,482	48,251	79,596	207,539	3,152,876	4,372,744
Investments in associates	–	–	–	–	4,582,659	4,582,659
Investment properties	–	–	–	–	549,492	549,492
Other assets	5,774,287	–	–	–	–	5,774,287
Property and equipment, net	–	–	–	–	791,721	791,721
Total assets	49,245,303	4,653,467	5,708,844	21,066,482	79,534,682	160,208,778
Liabilities and equity						
Due to banks	1,863,336	303,204	992,101	1,089,671	489,889	4,738,201
Deposits from customers	65,245,527	12,701,226	6,783,316	1,567,987	1,901	86,299,957
Mandatory convertible securities – liability component	–	–	–	109,049	–	109,049
Short and medium term borrowings	606,870	4,129,706	4,194,847	10,247,378	9,743,003	28,921,804
Derivative financial instruments	352,955	48,367	147,995	426,165	3,714,007	4,689,489
Long term borrowings	–	–	–	–	8,619,494	8,619,494
Other liabilities	7,740,665	–	–	–	–	7,740,665
Equity	–	–	–	–	19,090,119	19,090,119
Total liabilities and equity	75,809,353	17,182,503	12,118,259	13,440,250	41,658,413	160,208,778
Liquidity gap	(26,564,050)	(12,529,036)	(6,409,415)	7,626,232	37,876,269	–
Cumulative liquidity gap	(26,564,050)	(39,093,086)	(45,502,501)	(37,876,269)	–	–
Financial guarantees and Credit default swaps	2,463,315	2,088,604	667,457	1,438,252	11,426,908	18,084,536

44 Foreign exchange risk framework, measurement and monitoring

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

	2010 AED'000	2009 AED'000
	equivalent long/(short)	equivalent long/(short)
US $	(5,467,292)	(8,685,085)
Indian Rupee	112,970	92,406
Omani Riyal	2,325	2,057
Pound Sterling	2,546	1,663
Euro	(17,992)	3,976
Bahraini Dinar	2,274	(4)
Saudi Riyal	7,876	3,852
Japanese Yen	2,520	(587)
Australian Dollar	8,488	14,108
Swiss Franc	1,234	3,408
Malaysian Ringgit	1,206,740	716,170
Qatari Riyal	76,911	(8,429)
Others	6,490	(79)

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

Currency concentrations as at December 31, 2010:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	5,205,637	655,158	26	–	–	–	26,809	5,887,630
Deposits and balances due from banks	8,787,945	6,604,145	1,663,978	20,904	457,316	108,855	754,391	18,397,534
Trading securities	–		–	–	–	–	–	–
Loans and advances, net	103,637,174	16,395,738	8,421	997	38,068	–	2,691,472	122,771,870
Derivative financial instruments	622,344	2,885,094	2,673	–	–	–	78,862	3,588,973
Investment securities	717,478	7,249,655	310	–	–	–	295,695	8,263,138
Investments in associates	72,367	73,460	–	–	–	5,212,372	–	5,358,199
Investment properties	289,192	–	–	–	–	–	–	289,192
Other assets	1,706,392	10,460,446	68,161	60,521	20,480	60,468	112,689	12,489,157
Property and equipment, net	1,064,670	–	–	–	–	–	5,651	1,070,321
Intangibles assets	155,180	–	–	–	–	–	–	155,180
Total assets	122,258,379	44,323,696	1,743,569	82,422	515,864	5,381,695	3,965,569	178,271,194
Liabilities								
Due to banks	2,559,875	1,721,863	165,147	–	313,507	–	81,473	4,841,865
Deposits from customers	77,309,220	20,145,248	1,926,981	431,684	176,112	14	6,144,926	106,134,185
Mandatory convertible securities – liability component	29,131	–	–	–	–	–	–	29,131
Short and medium term borrowings	2,742,829	12,146,244	328,015	837,945	3,500,001	–	1,464,660	21,019,694
Derivative financial instruments	505,533	2,735,614	–	–	105	171,681	74,831	3,487,764
Long term borrowings	7,089,386	1,246,249	–	–	–	476,471	94,003	8,906,109
Other liabilities	4,236,259	9,621,979	71,613	26,307	28,729	126,262	167,949	14,279,098
Total liabilities	94,472,233	47,617,197	2,491,756	1,295,936	4,018,454	774,428	8,027,842	158,697,846
Commitment and contingent liabilities								
Letters of credit	272,030	1,518,673	215,233	171	11,189	–	244,680	2,261,976
Guarantees	8,175,102	4,162,977	424,047	1,852	13,790	–	927,398	13,705,166
Commitments to extend credit – revocable	5,590,046	–	–	–	–	–	–	5,590,046
Commitments to extend credit – irrevocable	5,836,559	2,408,735	5,894	–	–	–	6,219	8,257,407
Credit default swaps	–	412,295	–	–	–	–	–	412,295
	19,873,737	8,502,680	645,174	2,023	24,979		1,178,297	30,226,890
Commitments for future capital expenditure	425,319	–	–	–	–	–	–	425,319
Commitments to invest in investment securities	–	246,380	–	–	–	387,133	–	633,513
Total commitment and contingent liabilities	20,299,056	8,749,060	645,174	2,023	24,979	387,133	1,178,297	31,285,722

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

Currency concentrations as at December 31, 2009:

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

45 Market risk framework, measurement and monitoring

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

Market price risk

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

Management of market risk

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

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

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

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

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

Risk identification and classification

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

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

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

Trading risk

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

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

Non-trading risk

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

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

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

Risk measurement

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

- Non-statistical risk measures; and
- Sensitivity analysis

Non-statistical risk measures

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

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

Sensitivity analysis

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

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

Market risk - Trading portfolio

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

Interest rate risk

Relative parallel instantaneous rate move shift for all tenors in AED (AED '000):

	+25%		-25%	
December 31, 2010	(5,762)		31,031	
	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2009	55,246	25,736	(20,382)	(33,303)

Relative parallel instantaneous rate move shift for all tenors in USD (AED '000):

	+25%		-25%	
December 31, 2010	13,336		(27,307)	
	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2009	(49,565)	(22,300)	9,335	6,475

During 2010, the Bank changed its methodology of Interest rate risk stress testing methodology due to persistence of a regime of low interest rates in both the USA and UAE since 2008/2009, the +/- 100 & +/-200 bps Trading Book Interest raterisk Stress Tests were altered to +/-25% relative move in order to avoid scenarios of negative Interest Rates. In addition, it was appropriate that a nonparallel 25% relative move is a more reflective Trading Book revaluation stress test versus a +/-200bps move which is normally applied for the Banking Book and is intended to measure Net Interest Income sensitivity.

Currency wise

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

Price Shock in Percentage (AED '000)

		+10%	+5%	-5%	-10%
December 31, 2010					
	AUD	146	73	(73)	(146)
	EUR	(40)	(20)	20	40
	GBP	(11)	(5)	5	11
	JPY	332	166	(166)	(332)
	US$	(5,546)	(2,905)	3,211	6,778
December 31, 2009		+10%	+5%	-5%	-10%
	AUD	168	84	(84)	(168)
	EUR	(43)	(21)	21	43
	GBP	(11)	(5)	5	11
	JPY	(64)	(32)	32	64
	US$	(6,998)	(3,655)	4,051	8,553

Market risk - Non-trading portfolio

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

Interest rate risk

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

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

	Change in basis points	Sensitivity of net interest income AED'000	Sensitivity of equity AED'000
December 31, 2010	+25	53,838	(19,355)
	-25	(53,838)	19,355
December 31, 2009	+25	48,760	(11,190)
	-25	(48,760)	11,190

Operational risk

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

Equity price risk

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

46 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 106,443 thousand (December 31, 2009 - AED 92,459 thousand) held in India are subject to the exchange control regulations of India.

47 Trust activities

As at December 31, 2010, the net asset value of the funds under the management of the Bank amounted to AED 1,763,024 thousand (December 31, 2009 - AED 1,980,119 thousand).

48 List of subsidiaries

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

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	U.A.E.	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C. (note (i) below)	100%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advisory services.
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	2009	U.A.E.	Islamic banking.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C. (*)	100%	2005	U.A.E.	Financial investments.

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Abu Dhabi Commercial Bank (UK) Limited(*)	100%	2008	United Kingdom	Process service agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Holding company for infrastructure investments.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)	100%	2006	U.A.E.	Investment in commercial projects.
ADCB Fund Management S.A.R.L.	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Feeder Fund	82%	2009	Luxembourg	Mutual Fund.
ADCB MSCI Arabian Markets Index Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of man	Trust activities.
ADCB Services FZ-L.L.C. (Note 50)	100%	2010	U.A.E.	Transaction processing and back office support for related parties.

(*) These subsidiaries are dormant.

(i) At April 01, 2010 the Bank increased its ownership interest in the subsidiary Abu Dhabi Risk & Treasury Solutions L.L.C. The Bank shared its profits with the non-controlling interest of Abu Dhabi Risk & Treasury Solutions L.L.C in accordance with a separate agreement and as from April 01, 2010 the Bank increased its profit sharing to 100% from 51%.

(ii) On November 23, 2010, the Bank redeemed substantial units held by it in ADCB MSCI Arabian Markets Index Fund ("Subsidiary"). As a result of these redemption the Bank lost control over the subsidiary and the residual interest has been classified as available for sale investment as per IAS 39. (Note 51)

49 Capital adequacy and capital management

Capital management process

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

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

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

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

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

The ratios calculated in accordance with Basel II is follows:

	Basel II	
	December 31 2010 AED'000	December 31 2009 AED'000
Tier 1 capital		
Share capital	4,810,000	4,810,000
Statutory and legal reserves	2,704,179	2,627,979
General and contingency reserves	2,150,000	2,150,000
Employees' incentive plan shares, net	(36,677)	(13,438)
Foreign currency translation reserve	136,676	(353,736)
Retained earnings	991,927	1,360,623
Non-controlling interest in equity of subsidiaries	8,561	69,087
Capital notes (Note 26)	4,000,000	4,000,000
Mandatory convertible securities - equity component	4,663,014	4,742,932
Less: Investments in associates (50%)	(2,679,100)	(2,291,330)
Less: Securitization exposures (due to rating migration)	(532,475)	-
	16,216,105	17,102,117
Tier 2 capital		
Collective impairment allowance on loans and advances	1,581,985	1,504,854
Cumulative changes in fair value	174,799	(194,279)
Long term borrowings (Note 21)	6,617,456	6,617,456
Subordinated floating rate notes (Note 21)	1,172,789	1,328,891
Less: Investments in associates (50%)	(2,679,099)	(2,291,329)
Less: Securitization exposures (due to rating migration)	(532,475)	-
	6,335,455	6,965,593
Total regulatory capital	22,551,560	24,067,710
Risk-weighted assets:		
Credit risk	126,558,829	126,294,138
Market risk	3,464,224	6,523,298
Operational risk	5,405,406	5,657,608
Total risk-weighted assets	135,428,459	138,475,044
Capital adequacy ratio	16.65%	17.38%

The capital adequacy ratio was above the minimum requirement of 12% for December 31, 2010 (December 31, 2009 - 11%) stipulated by the U.A.E. Central Bank.

50 Business combination

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses ("the business") of The Royal Bank of Scotland ("RBS") in the U.A.E. at the net asset value on the date acquisition plus a consideration of AED 168,900 thousand. This acquisition has been approved by the U.A.E. Central Bank.

As a part of acquisition, the following subsidiary was acquired:

Details of subsidiaries acquired

Name of subsidiary	Principal activities	Date of acquisition	Proportion of ownership interest
ADCB Services FZ - LLC	Transaction processing and back office support	October 1, 2010	100%

The acquisition provides opportunities for the Bank to grow its credit card business and create one of the largest mass affluent businesses in the U.A.E.. The combined business will benefit from delivering economies of scale, a stronger operating platform and a wider distribution network by leveraging RBS's established local retail banking presence.

Assets and liabilities acquired

Particulars	AED'000
Cash and cash equivalents	306,204
Loans and advances, net	2,064,054
Other assets	47,331
Property and equipment	53,191
Identifiable intangible assets	143,400
Customer deposits	(2,427,238)
Other liabilities	(36,842)
Total net identifiable assets	150,100

The Bank appointed an external consultant to carry out the fair valuation exercise of the assets and liabilities assumed under business combination to identify the value of intangibles assets and goodwill arising acquisition. The amount mentioned against the assets and liabilities acquired represent the fair value of those assets and liabilities in the books on the date of acquisition based on the work of the consultant.

Goodwill arising on acquisition

	AED'000
Consideration transferred	168,900
Less: net value of identifiable assets and liabilities acquired	150,100
Goodwill arising on acquisition	18,800

Goodwill arose on the acquisition of the business as the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Acquisition-related costs amounting to AED 7,100 thousand have been excluded from consideration transferred and have been recognised as an expense in the period, with in "other operating expenses" line item in the consolidated income statement.

Net cash inflow on business combination

	AED'000
Consideration paid in cash	168,900
Less: cash and cash equivalent balances acquired	306,204
	137,304

Impact of acquisition on the results of the Bank

Included in the net operating income and profit for the year is AED 113,431 thousand and AED 21,692 thousand attributable to the additional business generated by the business acquired from RBS.

Had this business combination been effected at January 1, 2010, the net operating income of the Bank from the operations would have been higher by AED 340,293 thousand, and the profit for the year from the operations would have been higher by AED 65,076 thousand. The Directors consider these pro-forma numbers to represent at approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

51 Disposal of subsidiary

On November 23, 2010, the Bank redeemed substantial units held by it in ADCB MSCI Arabian Markets Index Fund ("Subsidiary") for a consideration of AED 55,148 thousand. As a result of this redemption the Bank lost control over the subsidiary and the residual interest is classified as available for sale investment as per IAS 39.

Analysis of assets over which control was lost:

Particulars	AED'000
Trading investments	91,203
Other assets	4
Bank balance	4,217
Other liabilities	(205)
Net assets disposed of	95,219

Loss on disposal of subsidiary

Particulars	AED'000
Consideration received	55,148
Fair value of residual interest	39,079
	94,227
Net assets disposed of	(95,219)
Loss on disposal of subsidiary	(992)

Fair value of residual interest has been booked as transfer to available for sale investments and this being a non-cash transaction has not been reflected in the consolidated statements of cash flows.

Net cash inflow on disposal of subsidiary

Particulars	AED'000
Consideration received in cash and cash equivalents	55,148

52 Legal proceeding

As alleged by the bank, during 2007 the Bank was induced into restructuring its investment in a Cayman - Islands based Structured Investment Vehicle. As a result of the restructuring, the Bank entered into A Credit Default Swap ("CDS") transaction under which the Bank assumed credit risk of AED 1,141,477 thousand (USD 310,775 thousand) referencing a loan used by the Structured Investment Vehicle to purchase a diversified portfolio of corporate and asset - backed securities (ABS") originally rated AAA.

In November 2010 the Bank has filed a legal claim against, amongst others Credit Suisse and Standards & Poor's in with the Supreme Court of the State of New York, USA which, amongst other things asks the Court to declare the restructuring (and the CDS transaction) void. The Bank alleges, amongst other things, that it was induced to enter into an emergency restructuring transaction based on false and misleading information namely that Credit Suisse failed to disclose conflicts of interests and other material information, and provided misleading information, to the Bank when structuring, marketing and selling, the investment and CDS.

53 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 25, 2011.