بنك أبو ظبي التجاري

ADCB

Annual Report and Accounts 2011

ADCB delivered a very strong 2011 performance, including record net profits, despite the impact of regulatory changes.

Contents

His Highness Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates
Supreme Commander of the UAE Armed Forces

His Highness Sheikh Mohammed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi
Deputy Supreme Commander of the UAE Armed Forces
Chairman of the Abu Dhabi Executive Council

ADCB is an acknowledged leader in the UAE banking sector. The Bank has been consistently recognised by industry publications and independent authorities for its innovative products and services and its best-practice professionalism in corporate governance, transparency, and disclosure.

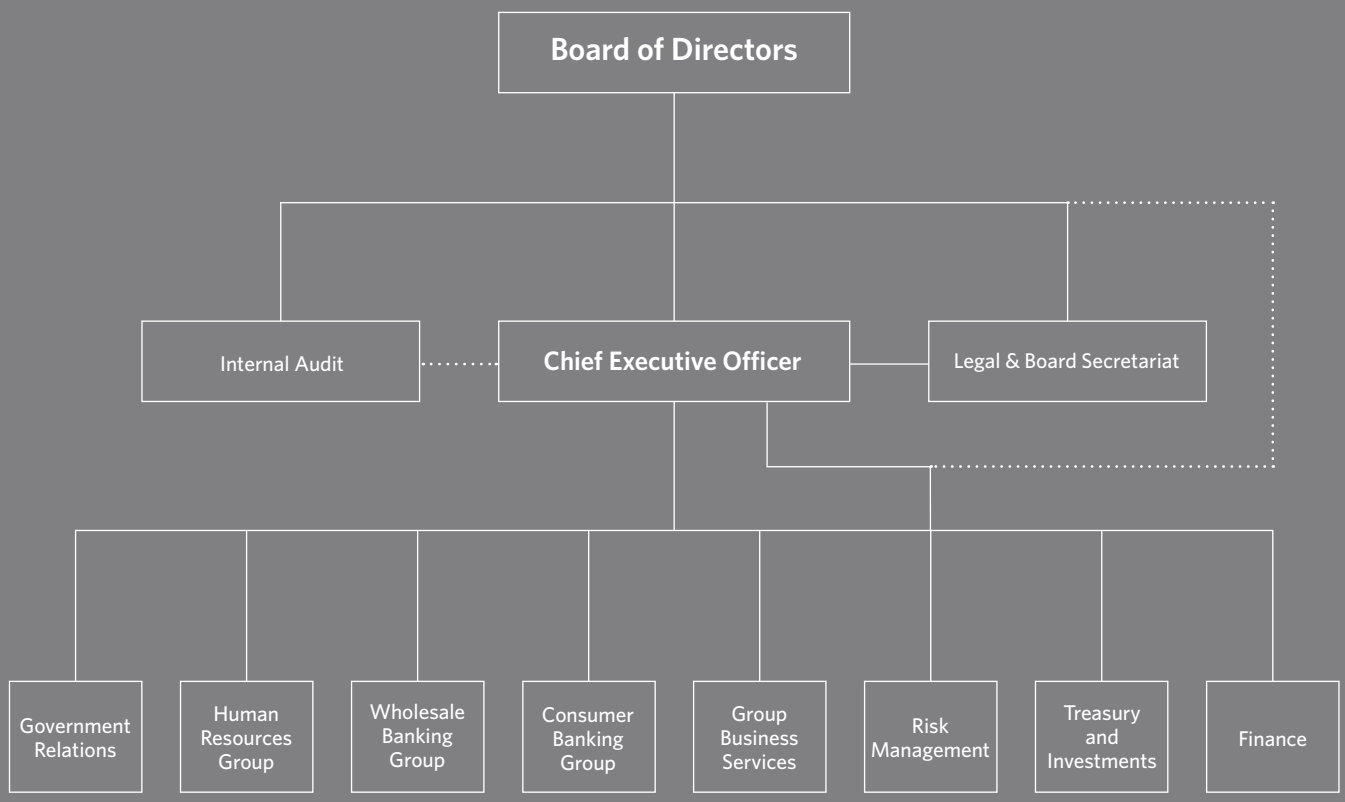
Among the many awards received by ADCB in 2011 were 'Best UAE Retail Bank 2011' from The Asian Banker (for the fourth successive year), 'Best Commercial Bank 2011' from Banker Middle East, and 'Best Corporate Governance in the UAE 2011' from World Finance.

ADCB is the third largest bank in the UAE and the second largest in Abu Dhabi by assets, at AED 184 billion at the end of 2011. The Bank has 48 branches, four pay offices, and 294 ATMs in the UAE and also operates two branches in India and an offshore branch in Jersey. It employs more than 4,000 people from 49 nationalities, serving over 450,000 retail customers and more than 34,000 corporate and SME clients.

ADCB is a public joint stock company incorporated in the Emirate of Abu Dhabi, UAE following the merger of Khaleej Commercial Bank, Emirates Commercial Bank, and Federal Commercial Bank. ADCB is registered under the UAE Federal Commercial Companies Law No (8) of 1984 under registration No 4 and operates in the UAE under a banking licence issued by the Central Bank of the UAE.

Capital structure and ownership

ADCB's authorised and issued share capital is AED 5.596 billion, each share having a nominal value of AED 1. The Government of Abu Dhabi indirectly holds 61.59 percent (of which the Abu Dhabi Investment Council owns 58.08 percent) of the Bank's share capital. ADCB is listed on ADX, the Abu Dhabi Securities Exchange.



Organisation

The above chart sets out the organisation structure of the Bank:

ADCB's four principal business groups are Wholesale Banking, Consumer Banking, Treasury & Investments and Property Management. ADCB's brokerage products, real estate management and services operations, certain Islamic products, and specialised investment funds are conducted through ADCB's subsidiaries, including Abu Dhabi Commercial Properties PJSC, and Abu Dhabi Commercial Engineering Services PJSC, Al Dhabi Brokerage LLC, and Abu Dhabi Commercial Islamic Finance Pvt JSC.

Consumer Banking provides ADCB's retail banking, private accounts, and wealth management services and manages the Islamic banking operations and the marketing function of ADCB.

Wholesale Banking 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 manages ADCB's commercial treasury operations, investment portfolio and interest rate, currency, and commodity derivatives business.

Property Management comprises the real estate management and engineering service operations of subsidiaries: Abu Dhabi Commercial Properties LLC and Abu Dhabi Commercial Engineering Services LLC.

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

Our Mission

To build a partnership with our customers that lasts a lifetime by:

- Treating every customer as an individual
- Offering innovative products and unparalleled service
- Never forgetting that our customer has a choice

Our Strategy

The Bank is currently in the process of finalising its strategic plan for 2012–2016:

- Growth through a UAE-centric approach and controlled 'internationalisation'
- Sustainability through liability growth
- Maintaining a culture of service excellence and efficiency
- Managing ADCB's risks in line with a predefined risk strategy
- Attracting, developing, and retaining the best talent with incentives aligned with the strategic objectives

3,045 mn

Net profit amounted to AED 3,045 million, compared to AED 391 million in 2010, while total net interest income and Islamic financing income of AED 4.69 billion was 27 percent up on the previous year. Operating profit before impairment allowances was AED 4.01 billion, up by 20 percent. Net interest margin rose to 3.10 percent from 2.57 percent a year earlier.

22.51%

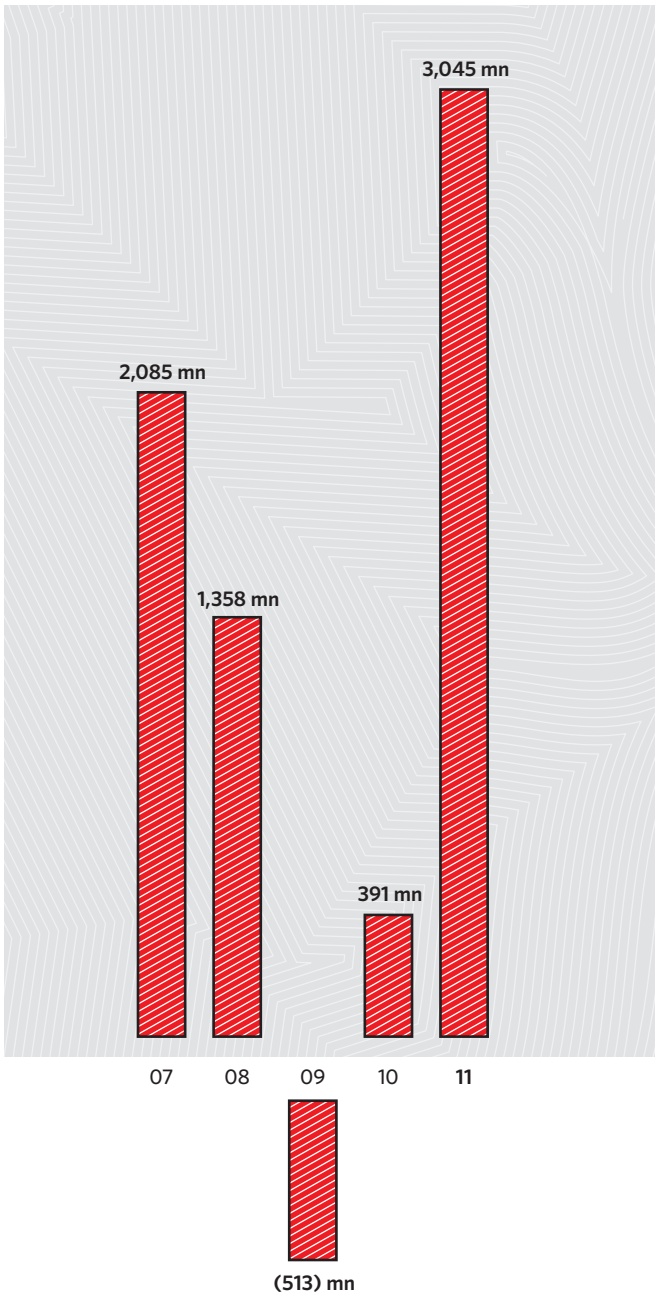
The capital adequacy ratio was at 22.51 percent compared to 16.65 percent in 2010, with the liquidity ratio rising from 17.45 percent to 22.13 percent. The Bank remained a net provider of liquidity to interbank markets, at AED 18.8 billion at the end of the year.

33%

Cost to income ratio was 33 percent in 2011, a slight increase on 2010's 31 percent.

2.06 bn

Portfolio impairment allowance balance was AED 2.06 billion at the end of 2011, representing 1.59 percent of credit risk weighted assets.



Awards of 2011

Banker Middle East

Best SME Account from Banker Middle East for the 'BusinessEdge' suite of products offered by the SME Banking Division

Smart Card

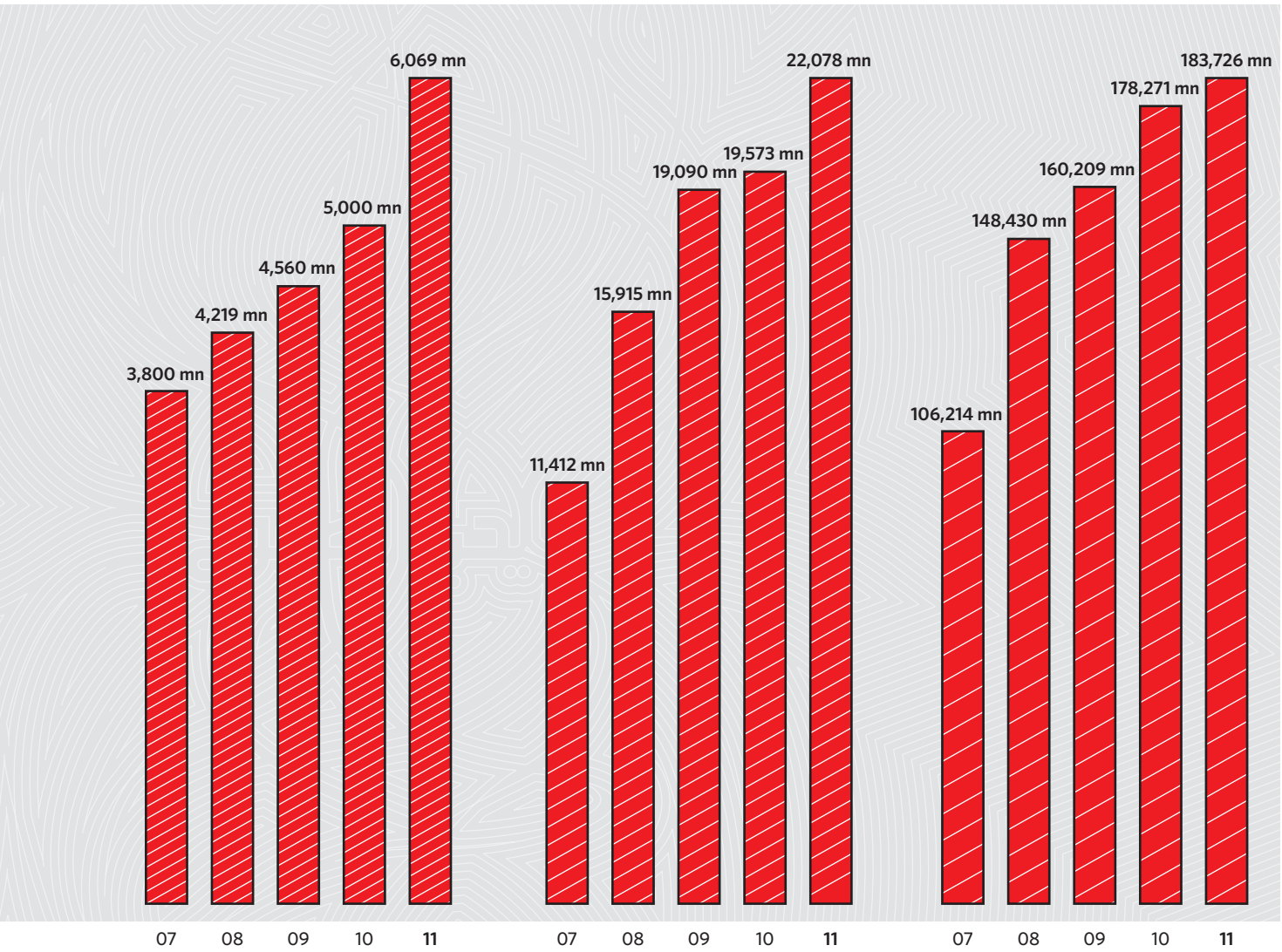
Best Credit Card for LuLu credit card from Smart Card Awards Middle East

Global Finance

Ranked number seven by Global Finance in 'The World's Safest Banks 2011 in the Middle East'

ACC

Financial Institution of the Year from the Allied Compliance Consultants third Annual International GRC and Financial Crimes Conference and Exhibition



* Excludes share of profit of associates

World Finance

Best Corporate Governance in the UAE for the second year in a row from World Finance

Smart Card

Best Co-branded Card for Etihad Guest Above credit card from Smart Card Awards Middle East

Banker Middle East

Best Commercial Bank from Banker Middle East Industry Awards

Global Islamic Finance

Most Improved Islamic Bank in the UAE from the Global Islamic Finance Awards

On behalf of ADCB's Board of Directors, I am pleased to present ADCB's annual report for 2011.

During 2011, global economic development was constrained by escalating concerns about sovereign debtors in the Eurozone and elsewhere. In the UAE and the region, the banking environment remained challenging, particularly in view of ongoing regional political uncertainty. The Bank's profitability was impacted by regulatory changes and continued efforts to restructure its asset book. Despite these challenges, ADCB delivered a very strong performance, including record net profits.

The most significant development in 2011 was the sale of the Bank's interest in RHB Capital Berhad. The disposal realised a healthy profit, improved capital levels and enabled the Bank to focus on its core UAE market. In addition, among other achievements, the Bank continued to improve its liquidity levels and funding profile and restructure its asset book, conducted a profit improvement programme, reviewed and renewed its risk appetite aspirations, conducted its first Islamic bond (Sukuk) issuance, and launched its offshore banking services through its Jersey branch. More detail about these developments and the Bank's financial performance in 2011 is set out in the 'CEO's Report' and 'CFO's Report' sections of this report.

The developments mentioned here were in line with the strategy set by the Board over recent years (see inset 'Strategic pillars') and are described in more detail in the 'Operational Review' section of this report.

Strategic Pillars

- Growth through a UAE-centric approach and controlled 'internationalisation'
- Sustainability through liability growth
- Maintaining a culture of service excellence and efficiency
- Managing ADCB's risks in line with a predefined risk strategy
- Attracting, developing, and retaining the best talent with incentives aligned with the strategic objectives

At the end of 2011, the Board and management began the process of refining ADCB's strategy for 2012 and beyond. This was due for completion in early 2012.

Meantime, the Board and management have continued to focus their efforts on building a strong governance culture across the Bank. At Board level, there has been continued focus on engagement and effectiveness, through various efforts including regular evaluations, professional development, and improving boardroom procedures and practices.

Management has focused on strengthening and improving its governance structures, and information flow to and from the Board. Continued efforts have been made to build risk management capabilities, including, in particular, a programme to develop and instil a 'unified credit culture' among the Bank's Board and management. More details of these efforts are described in the 'Corporate Governance' section of this report.

I express the Bank and its Board's sincerest gratitude and appreciation for the continued support from the Government during 2011. The achievements set out here would not have been possible but for the wise leadership of HH Sheikh Khalifa bin Zayed Al Nahyan, the President, and HH Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince. Thanks are also due to HH 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 also express gratitude for the support and loyalty shown by the Bank's customers and clients throughout the year, and to ADCB's Board members, senior management, and staff for their continued dedication and commitment.

Eissa Mohammed Al Suwaidi
Chairman

Core strategy yields results

The record results of 2011 bear testimony to the successful execution of the turnaround strategy adopted two years ago, after the global and regional economic crisis. With clear focus on the domestic market and core business lines, financial performance improved across the board indicating that the health of the ADCB franchise is stable and the turnaround sustainable.

Net profit of AED 3.045 billion in 2011 was a record – up significantly from AED 391 million a year earlier. However, the quality of the results is what underlines the inherent strength of the franchise. Capital adequacy strengthened considerably in conjunction with improvement in liquidity, and overall asset quality and disciplined cost management. This prompted a ratings upgrade by Standard and Poor's to A/A-1.

Strong operational performance across all areas of the Bank was endorsed by several local and international industry awards. Our retail banking business was honoured as the 'Best Retail Bank in the UAE' for the fourth successive year by The Asian Banker while the SME business received two awards from The Banker Middle East – 'Best Commercial Bank' and 'Best SME Account'.

The most notable landmark for the year was the sale of our equity stake in RHB Capital Berhad in Malaysia at a profit of AED 1.3 billion. Seamless integration of the retail banking business of the Royal Bank of Scotland in the UAE, acquired in 2010, was another key highlight of 2011, positioning ADCB as a retail banking powerhouse in this market. Through a joint venture with Bank of America Merrill Lynch that took shape during the year, we are now able to provide full-service transactional banking services worldwide and the launch of our branch in Jersey in December 2011 introduced offshore banking services to our retail customers.

A significant contribution to the bottom line was delivered from the Treasury and Investment Group, which is now benefiting fully from the advantages of being managed entirely in-house. ADCB successfully placed a USD 500 million Sukuk for the first time and a conventional bond issue was positively received in the market, highlighting increased global investor confidence and a healthy appetite to invest in our business.

In response to the UAE Central Bank directive on retail banking fees and charges, ADCB went a step further by introducing "Free Banking" – removing charges for a wide range of personal banking services. This pioneering move has underlined our pledge to be a socially responsible bank, focusing our efforts on benefiting the community we serve.

The Islamic Banking business gained critical mass validating our integrated approach to Islamic Banking with a common distribution infrastructure offering both Islamic and conventional products and services. Overall growth in the Islamic business has been very encouraging, accounting for much of the year's expansion in retail, SME, and corporate banking.

In summary, our results in 2011 reflect the effectiveness of our strategy and the efficiency of execution – building world-class capabilities that have earned us the respect of regulators, shareholders, competitors, and most of all our customers. We have fostered a culture of transparency, teamwork, and bias for action, rooted in talking to our customers, responding to their needs, and keeping in touch with reality.

At ADCB, it has always been our endeavor to use global standards as the barometer of success. To this end we engaged the services of two internationally renowned consulting institutions to review the operations of the Bank across Retail, Wholesale, and Treasury so as to identify potential performance improvement opportunities. The study indicated that ADCB performance standards were broadly in line with global benchmarks. This gives confidence that the Bank is now well-positioned to take advantage of future improvements in the domestic economy and potential international opportunities. We look forward to 2012 with renewed energy and optimism. As we speak, a five-year strategy for the Bank is taking shape with a view to building a stronger and more resilient ADCB.

On behalf of the executive management team, I take this opportunity to express our sincere appreciation and gratitude to all our shareholders and the Board of Directors for their support; to our customers for their custom and trust; and to our employees for all the hard work that made 2011 such a success.

Ala'a Eraiqat
Chief Executive Officer

Eissa Mohammed Al Suwaidi
Chairman

Eissa Mohammed Al Suwaidi was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. Eissa Mohammed Al Suwaidi has 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, International Petroleum Investment Company, Abu Dhabi Fund for Development, Emirates Investment Authority, Emirates Integrated Telecommunications Company (du)

Bachelor in Economics
(Northeastern University, USA)

Mohamed Sultan Ghannoum Al Hameli
Vice Chairman

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

External appointments:
Executive Director of Abu Dhabi Finance Department

Chairman of Health Authority (HAAD)

Board Member – Abu Dhabi Ports Co, Abu Dhabi Health Services Co, Abu Dhabi Development Fund, Abu Dhabi Public Service Co. (Musanada), Abu Dhabi Airports Co, Social Welfare & Minor Affairs Foundation

Bachelor in Finance
(Boston University, USA – graduated with a major in finance)

General Manager Program
(Harvard Business School)

Chartered Financial Analyst (CFA Institute)

Ala'a M Eraiqat
Executive Director, Chief Executive Officer

Ala'a M Eraiqat joined ADCB in January 2004 and since then has held various senior posts before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors, in February 2009. He previously held senior positions at Citibank and Standard Chartered Bank amongst others.

His responsibilities expand to chairing the following subsidiaries and committees of ADCB, among others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, Al Dhabi Brokerage, Management Executive Committee, Management Risk & Credit Committee.

External appointments:
Member of Board of Directors in Abu Dhabi National Hotels, Public Joint Stock Co,

Director to the MasterCard Asia/Pacific, Middle East & Africa Regional Advisory Board,

Member of Mubadala Infrastructure Partners Advisory Board

Personal Awards:
Adjudged in 2011 as the No 1 CEO among the Top 50 CEOs from 300 companies in Saudi Arabia and UAE by Trends, an international magazine on Arab Affairs; The Asian Banker Promising Young Banker Award for the Gulf Region 2007 on 16 March 2008; and in 2009, he was chosen by Arabian Business as one of the GCC's Most Admired Executives.

Mohamed Darwish Al Khoori
Director

Mohamed Darwish Al Khoori has 22 years of experience in asset management. In January 2008 Mohamed Darwish Al Khoori was appointed as the Executive Director of ADIA's Internal Equities Department.

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

External appointments:
Executive Director Abu Dhabi Investment Authority

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

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

General Manager Program (Harvard Business School)

Abdulla Khalil Al Mutawa
Director

Abdulla Khalil Al Mutawa is a competent and dedicated investment professional with more than 30 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; Bank Al Falah, Pakistan; Wateen Telecom, Pakistan; National Banks Association, UAE; Emirates Bank Association

BS in Business Administration, (University of North Carolina, USA)

Salem Mohamed Athaith Al Ameri
Director

Salem Mohamed Athaith Al Ameri is currently the Executive Director of the Private Equity Department of 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, Salem Mohamed Athaith 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

Chairman – Abu Dhabi National Hotels

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

Mohamed Esmaeel Al Fahim
Director

Mohamed Esmaeel Al Fahim is a prominent UAE national, employed with the Abu Dhabi Investment Authority and holding a senior position since 1987.

Mohamed Esmaeel Al Fahim 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), Baniyas Investment, Al Fajer Investment, Bloom Real Estate, Green Crescent Insurance, Burooj

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

Mohamed Ali Al Dhaheri
Director

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

External appointments:
Board Member – Abu Dhabi Investment Company, Al Hilal Takaful, Securities & Commodities Authority (since June 2010)

Member of Remuneration Committee – Abu Dhabi Investment Council, Al Hilal Takaful, Securities & Commodities Authority (since June 2010)

Bachelor of Business Administration (International University of America)

Sheikh Sultan Bin Suroor Al Dhahiri
Director

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

External appointments:
Chairman of SSD Commercial Investment, and Abu Dhabi Maritime & Mercantile International Co

Board Member – Abu Dhabi National Tourism and Hotels, Al Khazna Insurance Company

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

MBA (Abertay Dundee University, UK)

Khalid Deemas Al Suwaidi
Director

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

External appointments:

Chief Executive Officer – Das Holding

Chairman of Emirates & Morocco Trading & General Investment, United Tina

Vice chairman of Manazel Real Estate Company

Board Member – Abu Dhabi National Takaful Company, Citiscape Group Company

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)

Jean-Paul Pierre Villain
Director

After a brief period as an Assistant Professor in Finance at a Parisian University, Jean-Paul Pierre 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 Director of the Strategy Unit at HH the Managing Director's Office, ADIA.

In 2007, the President of the French Republic made Jean-Paul Pierre Villain Chevalier de la Légion d'Honneur.

In May 2004 Jean-Paul Pierre Villain was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors.

External appointments:

Director of Strategy Unit, HH the Managing Director's Office, ADIA

Member of ADIA Strategy Committee

Chairman – ADIA Compensation and Benefits Working Group

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

Governor – British School Al Khubairat, Abu Dhabi

Institut d'Etudes Politiques (Paris)
Licence et DEA Economie (Paris)
Licence et DEA Science (Paris)

Ali Darwish
Head of Human Resources Group

Ali is an experienced banking professional who has worked at senior executive levels since 1998, Ali is Head of Human Resources for ADCB. Before joining ADCB, he was a key contributor in organisations such as Tamweel, Dubai Islamic Bank and ABN AMRO. Under Ali's leadership, his DIB subsidiary was voted the best organisation by the Board of Islamic Financial Services. He was also a prime contributor to winning the Best Bank Customer Service/Contact Centre award at the 2006 Banker Middle East Industry Awards.

Simon Copleston
General Counsel and Board Secretary

Simon has been General Counsel and Board Secretary at ADCB since 2008. After graduating from Durham University in the UK, he practised corporate law in the City of London for eight years. He joined Abu Dhabi Investment Authority in 2006, acting as lawyer to the Emerging Markets Department and Strategic Investment and Infrastructure teams. He has more than 14 years' experience in banking, finance, and corporate law. Since 2010, he has been a non-executive director of Damas International Ltd.

Simon has been highly instrumental in the Bank's recent recognition as a regional leader in corporate governance.

Abdulla Khalifa Al Suwaidi
Head of Government Relations

Abdulla joined ADCB as Executive Vice-President and Head of Government Relations in 2010, after being the Vice-President of Dubai Islamic Bank's Wealth Management Division. He is currently appointed as Managing Director of ADCB's subsidiaries: Abu Dhabi Commercial Properties PJSC and Abu Dhabi Commercial Engineering Services PJSC. Abdulla is responsible for retaining the ISO certification by Lloyd's Register Quality Assurance for both companies. He is a member of ADCB's MEC, Vice-Chairman of ADCP & ADCE Board and a Chairman of ADCIF.

Abdulla has 11 years' experience in banking and business management and holds Master's degrees in Business Administration and Science in Management from Colorado Technical University, USA, with double majors in Business Management and System Management.

Colin Sean Fraser
Head of Wholesale Banking Group

Colin completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduate. He is an Associate of the Chartered Institute of Bankers and a Fellow of the Royal Society for the Arts. Colin joined Barclays Bank in 1992 and undertook various roles as an international banker. In 2007 he was appointed Barclays' Corporate Banking Director, GCC, joining ADCB a year later as Executive Vice-President and Head of Wholesale Banking Group.

Deepak Khullar
Group Chief Financial Officer

Deepak was appointed Group Chief Financial Officer in 2008 and is responsible for group finance, investor relations, and strategic sourcing. He previously spent 15 years with Standard Chartered Bank, most recently as Chief Financial Officer of Standard Chartered First Bank in Korea. Before joining Standard Chartered he worked for 12 years with Ernst & Young and Price Waterhouse & Co (now PricewaterhouseCoopers) in the Middle East and India. He is an Associate of the Institute of Chartered Accountants of India and an Associate Member of the Association of Corporate Treasurers (UK).

Kishore Rao Naimpally
Group Chief Risk Officer

Kishore joined ADCB as Chief Risk Officer in 2009, having started his banking career with State Bank of India where he spent 12 years in diverse roles. He also spent 13 years at ABN AMRO, handling various assignments across Asia, Europe, and North America, and was Chief Credit & Risk Officer at Arab Banking Corporation for five years, responsible for enterprise-wide risk management implementation. Kishore is a member of ADCB's MEC, MRCC, MRC and ALCO. As the Bank's first CRO, Kishore is charged with setting up, embedding, and expanding the risk framework. He is a qualified cost accountant and corporate secretary and holds a degree in physics.

Arup Mukhopadhyay
Head of Consumer Banking Group

Arup joined ADCB in 2005 and is Executive Vice President and Head of the Consumer Banking business. He had previously spent seven years with Citibank, latterly as Head of Wealth Management products and Marketing Director for its UAE consumer business. Before that he worked with Unilever in India in several sales and marketing roles. Arup is a Mechanical Engineering graduate and holds an MBA degree from the Indian Institute of Management, Lucknow.

Jerry Möllenkramer
Group Chief Operating Officer

Jerry was appointed Group Chief Operating Officer following the acquisition of the Royal Bank of Scotland's retail banking business in the UAE in 2010. He was previously Chief Operating Officer for Royal Bank of Scotland's Middle East and Africa franchise, a position he held from 2008. He also served as an Executive Director for ABN AMRO's Group Services Division, and before that fulfilled various directorships within ABN's Wholesale Division. Jerry holds a BA from the University of California, an MBA and Masters, in Business Informatics from Erasmus University – Rotterdam School of Management, and was a distinguished Fullbright fellow at the University of Leiden in The Netherlands.

Kevin Taylor
Head of Treasury and Investments Group

Kevin joined ADCB 2009 as the Head of Treasury and Investments. He has held significant Treasury and Risk positions in global organisations such as ALICO, Citigroup, Westpac Bank, and Merrill Lynch. At ADCB, he is responsible for a front office staff of 40, including FX trading and sales, derivative trading and sales, and fixed income and investments personnel, along with money market and balance sheet analytics teams. Kevin holds an MBA degree from Macquarie University in Australia.

Abdirizak Mohamed
Group Chief Internal Auditor

Abdirizak has been the Group Chief Internal Auditor at ADCB since 2006, having previously worked at the NASDAQ stock market, NASD (FINRA), and OFHEO (FHFA). He has more than 18 years of financial industry experience that spans capital markets management, accounting policy/applications, examinations and auditing, risk management, regulatory oversight, and corporate governance. Currently, he serves as an Audit Committee Member of Abu Dhabi Securities Exchange (ADX), Abu Dhabi Investment Company (Invest AD), Al Foah Company, and Abu Dhabi Tourism and Cultural Authority. Abdirizak is a Certified Public Accountant, and holds a Bachelor's degree from the University of Washington in Seattle and a Master's from the George Washington University in Washington, DC.

A record year for income and profits

In 2011, the Bank continued to build on its strong position, delivering robust performance with record levels of income and profit. The Bank significantly strengthened its capital position, improving liquidity levels and funding profile while remaining prudent in its risk management approach.

2011 Highlights

- Net profit amounted to AED 3,045 million, compared to AED 391 million in 2010
- Encouraging revenue trends, diversified income growth with UAE-centric growth strategy
- Total net interest and Islamic financing income increased 27 percent to AED 4,688 million and operating income grew 21 percent, reaching AED 6,069 million
- Maintaining a solid balance sheet, controlled increase in loans and advances; loan to deposit ratio at 113.5 percent improved from 115.7 percent in 2010
- Upward revision of ratings by Standard & Poor's reflecting strong levels of capitalisation and liquidity, capital adequacy ratio was 22.51 percent compared to 16.65 percent in 2010 with liquidity ratio rising from 17.45 percent in 2010 to 22.13 percent in 2011
- The Bank remained a net provider of liquidity to interbank markets at AED 18.8 billion at the end of the year
- Cost to income ratio at 33 percent in 2011 compared to 31 percent in 2010 while continuing to invest in our businesses – in particular cash management, trade finance, treasury, and relaunching our Islamic Banking Business
- Improved asset quality, with reported NPLs reduced to 4.6 percent in 2011, compared to 11.1 percent (5.8 percent excluding Dubai World exposure) in 2010
- Portfolio impairment allowance balance was AED 2,059 million, or 1.59 percent of credit risk weighted assets as at 31 December 2011
- Exposure to investments in CDS were substantially reduced from AED 1,457 million at 31 December 2010 to AED 55 million at 31 December 2011
- In light of the record financial results, the Board of Directors has recommended a 20 percent cash dividend of AED 1,119 million, equivalent to 37 percent of net profit

Deepak Khullar
Group Chief Financial Officer

Operationally, ADCB's four principal operating groups are Wholesale Banking, Consumer Banking, Treasury & Investments and Property Management. These are supported by other departments and functions such as Group Business Services, Risk, Credit, Internal Audit, HR, Finance, Investor Relations, Corporate Communications, Marketing, Compliance and Legal.

Innovative leadership drives consistent and sustainable growth

Strategy

The Bank's strategy is based on five key themes:

- Growth through a UAE-centric approach and controlled 'internationalisation'
- Sustainability through liability growth
- Maintaining a culture of service excellence and efficiency
- Managing ADCB's risks in line with a predefined risk strategy
- Attracting, developing, and retaining the best talent with incentives aligned with the strategic objectives

Consumer Banking

The Consumer Banking Business once again delivered an excellent financial performance in 2011, underlining its strength as a sustainable franchise, built over the last five years with a relentless focus on business fundamentals, driven through a value management framework. Proactive customer engagement shaped by predictive analytics and customer segmentation supported by an award-winning loyalty programme (TouchPoints), Price Optimisation, Multi-channel sales and distribution, Strategic Cost Reduction and Effective Risk Management initiatives have been the pillars of success.

ADCB was adjudged as the 'Best Retail Bank in UAE' by the Asian Banker International Excellence in Retail Financial Services Awards for the fourth year in succession (2007-2011) and 'Best Retail Bank in the Gulf States' for the third time.

The erstwhile RBS Retail Banking Business in the UAE acquired in October 2010 was integrated seamlessly over a period of just 12 months. The acquisition, which added over 200,000 customers, 300,000 credit cards, 51 ATMs, 3 branches and a modern call centre facility, strengthened the mass affluent franchise and positioned the ADCB credit card business as a market leader. The integrated business now stands as a retail banking powerhouse with a domestic network that extends to 48 branches, four pay offices, and 294 ATMs.

Despite a difficult operating environment, intense competition, and new regulations that stymied asset growth and curtailed fee income, the Consumer Banking Business achieved a record 25 percent growth in operating income and 21 percent growth in operating profit. A superior branded customer experience continued to be the fulcrum of the ADCB consumer banking strategy. As in 2010, 93 percent of Excellency customers were satisfied with ADCB, while customer satisfaction scores for the Privilege segment increased from 74 percent to 80 percent and that of the Aspire segment remained steady at 76 percent.

A 'Service Excellence' programme was initiated and the state of the art CRM system (ITQAN) was further enhanced to consolidate ADCB's service-driven competitive advantage.

ADCB broke convention to introduce 'Free Banking' in October 2011, effectively doing away with all account-related transaction and maintenance fees, once again demonstrating its commitment to customers and ethical banking practices. The introduction of Prepaid Cards and the launch of the new offshore branch in Jersey added to the customer value proposition.

Liabilities grew by three percent with current and savings accounts now constituting 55 percent of consumer deposits (up from 49 percent in 2010), while assets marginally declined by five percent. Investments made to strengthen the mass affluent franchise led to 65 percent growth in the customer base, with Investments AUM and Bancassurance subscriptions growing by 17 percent and 178 percent, reflecting ADCB's buoyant wealth management business. Spends on ADCB credit cards grew by 85 percent, with the immensely popular Etihad Airline and Lulu Supermarket co-brands being the hallmark of success. Right-pricing of assets and granular management of key accounts drove strong top-line growth in revenue for the Private Accounts business.

Inauguration of the Sheikh Zayed Road Branch, February 2011

'Excellency magazine', an ADCB publication for high net worth clients

ADCB Islamic Banking re-launch campaign

Creating the foundations for sound asset growth

The Islamic Banking window of ADCB was re-launched in 2011 with a new brand identity and a refreshed positioning platform. Recognised by Euromoney as the 'Most Improved Islamic Bank in the Middle East', Islamic Banking was a strong contributor to the growth of the consumer business in 2011, led by the popular Millionaire Destiny Savings Account.

Wholesale Banking

Strong focus and progress on franchise development in recent years was marked in 2011 by new client acquisition, particularly in the government banking, mid-corporate and SME segments, following proactive market engagement for new opportunities. A significant pipeline of new business has been built recently across our client base.

Targeted investment significantly enhanced product capability and channels through the launch of ProTrade and ProCash (Release 1), ADCB's state-of-the-art transaction banking platforms. As a result, the flow of transactional activity through ADCB for its wholesale client base continued to grow significantly, while service standard scores remain strongly and consistently positive.

Completion of the ProTrade platform now provides comprehensive functionality equal to the best international competitors. The first release of ProCash, the Bank's new cash management platform, was successfully launched on plan. In parallel we have developed an effective host-to-host functionality for major cash management clients. As a result, major government and private sector entities have moved their business flows to ADCB, and the growth of CASA balances reflected this.

The number of clients benefiting from Wholesale Banking's dedicated service team for intensive users of transaction banking increased sharply, rising by 30 percent during the year.

A project to reduce the cost of fixed deposits was coordinated with Treasury, and through careful management held book balances at planned levels while substantially reducing average yield. The financial institutions business enhanced its offering to banks (for example, Vostro – where other financial institutions hold an account with the Bank) and non-Bank financial institutions, particularly in trade finance.

The SME team built a number of new financing programmes, further differentiating ADCB in this critical segment and creating the foundations for sound asset growth by meeting the needs of many SMEs who are ready to recommence growth and need the financing to do so.

A team of 25 relationship managers was recruited to increase the service levels and support we provide in the SME market, more than doubling this resource pool.

Strong focus and emphasis was placed on midsized corporate clients, substantially increasing the size of our team catering to a segment that is arguably under-served and where we see significant opportunity to grow.

Further major achievements included the retention of core talent with minimal regretted attrition, delivery of systems capabilities, beginning business build in ADCB India after significant work to stabilise the franchise, upgraded portfolio risk management, and reduction in liabilities while maintaining balances. Finally, ADCB's investment banking team delivered on a number of major transactions including a pivotal role in the disposal of our stake in RHB Capital Berhad.

Signing agreement with Bank of America Merrill Lynch

ADCB and the National Corporation for Tourism & Hotels sign a loan agreement

Record income and higher liquidity levels

Treasury & Investments

Treasury and investment operations closed the year with record income and increased profit, higher liquidity levels, and an even stronger capital position – the product of strategic investment in people, systems, and technology for long-term growth.

Operative income rose by 56 percent during 2011 and net profit by 191 percent, while operating costs were reduced by 21 percent.

ADCB's first sukuk – and only the second Islamic bond issue from a conventional bank in the GCC – was successfully launched, the highlight of a year in which the Bank expanded its entire Islamic operations. The Islamic structured products programme has introduced a suite of innovative Islamic investment and risk solutions that now successfully compete with local and regional Islamic banks' offerings. For example, ADCB's profit rate swap was ranked top among the prominent Islamic banks.

A conventional bond issue in the Swiss franc market – the second of its kind by ADCB – was also positively received by investors. The strong appetite for all ADCB issuances confirmed the trust that global investors hold in the Bank.

Group Business Services

Group Business Services (GBS) comprises a number of key 'run the Bank' support functions including Group Strategy and Change, Technology Services, Group Operations, Corporate Services, and Information and Physical Security.

2011 saw the delivery of several major change initiatives, reinforcement of ADCB's IT security, licensing and vendor management posture, a strengthened capital investment approach, and enhancement of strategic and agenda management support. Dedicated emphasis on the de-risking of ADCB's processes has helped to ensure that the Bank remains on a strong operational and risk footing. Other areas of achievement include the successful integration of the UAE assets of the Royal Bank of Scotland's Retail banking business.

Change management and streamlining of Bank processes is an ongoing responsibility, delivering cost efficiencies and an improved customer experience. During 2011, GBS worked closely with its internal business partners to deliver superior operational performance in an efficient and transparent manner.

Human Resources

Consolidating all the Bank's development initiatives for UAE nationals and creating a compelling Emiratisation strategy was a major achievement in 2011 and is already positioning ADCB as a leader in this field. The Bank has now reached a 40.6 percent Emiratisation quota, up from 15.41 percent in only six years.

Under ADCB's UAE National Student Sponsorship Programme, the Bank has recruited 100 second and third year students on a sponsorship basis that will commit them to a minimum of 24 months' service after graduation. The top 25 students will complete the Graduate Management Programme to be launched in 2012, with the aim of accelerating the managerial careers of high-potential UAE nationals.

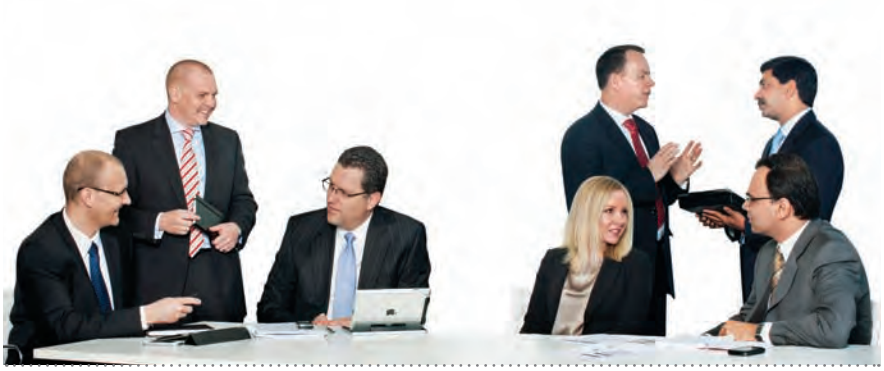
A special UAE National Committee has been established to advance the Emiratisation agenda and act as a catalyst for the development, growth, and retention of UAE national talent. Participation in UAE National Forums gives the Bank a platform for networking, relationship-building, and communication between the UAE national community and the Bank's directors and senior management.

ADCB's Treasury and Investments Group

2011 saw the delivery of several major change initiatives, reinforcement of ADCB's IT security, licensing and vendor management posture, a strengthened capital investment approach, and enhancement of strategic and agenda management support.

ADCB completes the integration of Royal Bank of Scotland's UAE Operations (Retail, Wealth Management, and SME)

Operational and service excellence with risk minimisation



ADCB is one of the first private sector organisations to provide employment opportunities for UAE national talent in collaboration with Abu Dhabi Tawteen Council. The first batch of 30 nationals have been inducted and trained, filling the need for capable entry-level national staff.

Various initiatives related to UAE national development have been consolidated under the Mahara Academy, which helps to develop UAE national talent at all organisation levels, beginning with trainee programmes across all emirates for entry-level staff and continuing with development opportunities for supervisors, managers and executives. To reinforce the Bank's learning proposition and ensure that the learning is shared and continues to add value across the organisation, an internal network of mentors and coaches provides individual advice and support to the Mahara students.

The Ambition University, ADCB's new home for learning and development, complements the work of the Mahara Academy, providing contemporary e-learning solutions and blending it with face-to-face workshops.

Many learning programmes will be certificated and externally accredited. The aim is create a world-class facility, custom-designed for ADCB's needs that will provide a competitive advantage by developing the Bank's people in a business-driven way, as well as a means of attracting top talent.

During 2011, the Bank's Towards Service Excellence (TSE) programme was developed and delivered through a team of 30 internal facilitators to more than 1,800 staff members. TSE was designed to create and embed a culture of service excellence across ADCB, which ensures complete customer satisfaction at every touch point and that all links in the Bank's service value chain work flawlessly together at all times.

A newly introduced variable pay programme supplements the Bank's existing compensation and benefits structure, with the intention of ensuring that pay and benefits remain performance-driven and market-competitive, taking into account the differing pay levels and practices for major business areas and reflecting external realities for hiring and retaining the best people.

The programme rewards the Bank's highest contributors through a combination of fixed pay short-term and long-term performance-based variable pay.

Overall, the Bank's management of HR policy and governance sharpened its focus on four areas:

- Education – explaining to staff and managers what the policies mean
- Application – ensuring that policies are applied according to the guidelines in a fair and consistent manner
- Governance – identifying where policy is ignored and ensuring that it is remediated
- Exceptions – managing policy exceptions in a transparent and equitable manner

UAE National Development Forum

The Bank has now reached a 40.6 percent Emiratisation quota, up from 15.41 percent in only six years.

ADCB Ambition University

The Bank is committed to removing 'clutter' from its annual report. Accordingly, this report only contains information which is material, relevant and has changed since the most recent annual report. More detailed information is available on the Bank's website, at http://www.adcb.com/about/corpgovernance/overview.asp.

THE BOARD

The Board's agenda in 2011

The Board of Directors (the Board) has adopted a rolling agenda to ensure that each of its responsibilities is satisfied on a periodic basis. In 2011, the Board regularly reviewed the Bank's financial performance, as well as the performance of individual business areas. Among other things, Board members focused on setting the Bank's risk strategy, and enhancing the Bank's 5-year strategy.

Additionally, during 2011, among other items, the Board continued to focus on Board engagement and effectiveness through various efforts including:

- conducting a performance evaluation, and taking appropriate remedial actions (see 'Performance evaluations' for more details),
- tailored professional development to ensure the Board's ongoing capabilities and effectiveness in the boardroom, and to extend and refresh Board members' knowledge and skills, and
- improvements in governance structures, processes and information flow to and from the Board.

The Board's adviser

In 2011 the Bank appointed Lord Davies of Abersoch as Adviser to its Board of Directors – this was aimed at further enhancing the Board's effectiveness. As an Adviser, Lord Davies attended Board meetings and brought his extensive international banking expertise and experience of sitting on the boards of various multinational companies to Board deliberations. He also advised on aspects of the Bank's business including strategy.

Structure and composition

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

Appointment, retirement and re-election

According to the Bank's articles of association:

- All Directors are required to seek re-election by shareholders every 3 years, and one-third of the Board will seek re-election on an annual basis.
- 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 2011, 58.08 percent).
- Details of the Board members' current terms of office, and, where relevant, their election by Abu Dhabi Investment Council, are set out in the table under 'Board membership and attendance'.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

Directors' independence

The Bank considers that during 2011 the Bank's independent Directors represented more than one third of the Board; and throughout 2011 the majority of members of the Board Audit & Compliance Committee and the Board Nomination, Compensation & HR Committee were independent.

Please see further details, including the Bank's independence criteria, at http://www.adcb.com/about/corpgovernance/overview.asp.

Induction and professional development

In 2011, no new Directors were appointed to the Bank. Please see http://www.adcb.com/about/corpgovernance/overview.asp for additional information concerning the Bank's induction programme for newly appointed Directors.

Throughout 2011, the Bank provided Directors with opportunities to update and develop their skills and knowledge through external seminars, regular presentations from senior management, and relevant reading material. In particular, in response to a training survey conducted among Board members in 2011, the Bank developed a series of in-house presentations on the core areas of the Bank's business, which addressed business and market issues relevant to those areas.

In addition, the Bank engaged Moody's Analytics to provide a series of workshops for the Board, senior management and Bank staff as part of its unified credit culture programme, designed to bring to the Bank a standardised approach to credit analysis.

Matters reserved to the Board and information dissemination

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

Meetings

In 2011, the Board of Directors met regularly and Directors received information between meetings about the activities of Board and management committees, and developments in the Bank's business. There were 8 Board meetings and 41 Board committee meetings in 2011.

The table that follows on the next page, gives details of each Director's attendance at meetings of the Board and Board Committees in 2011.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

Board Committees

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 – rotations made in 2011 are reflected above under 'Meetings' in the table 'Board membership and attendance.'

In addition to the Bank's standing Board Committees, in 2011 two special Board committees were established to focus on profit improvement, and strategy and risk strategy. These were established with the remits to: (a) work with external consultants to maximise the Bank's profitability in 2011 and beyond; and (b) work with external consultants to refine the Bank's risk strategy and 5-year strategy. Each of the special committees met three times during 2011, and their membership consisted of Eissa Al Suwaidi, Mohamed Al Hameli, Mohamed Al Khoori, and Khalid Deemas Al Suwaidi.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

Board membership and attendance

Name	Status	Expiration of current term of office	Board		Audit & Compliance Committee		Corporate Governance Committee		Risk & Credit Committee		Nomination Compensation & HR Committee	
			Meetings: 8		Meetings: 10		Meetings: 3		Meetings: 23		Meetings: 5	
Eissa Mohd Al Suwaidi	Director [1]	2014	C	8					C	23	M	5
Mohd Sultan Al Hameli	Director [1]	2013	M	8					M	14	C	5
Ala'a Mohd Eraiqat	Director	N/A	M	8								
Mohamed Darwish Al Khouri	Director [1]	2014	M	7	C	10	M	3				
Salem Mohd Al Ameri	Director [1]	2013	M	7	M		C	3	*	4		
Khalid Deemas Al Suwaidi	Director [1]	2012	M	8	M	10					M	3
Mohd Ali Al Dhaheri	Director [1]	2013	M	6	*	3			M	12	*	1
Mohd Esmaeel Al Fahim	Director	2012	M	8	M	6	*	–				
Abdulla Khalil Al Mutawa	Director	2012	M	7			M	3	M	21		
Jean–Paul Villain	Director [1]	2014	M	8					*	3	M	3
Sh Sultan Suroor Al Dhahiri	Director	2012	M	5	*	–	M	2				

C Chairman M Member * Member (until April 2011) [1] Elected by Abu Dhabi Investment Council

1. Audit & Compliance Committee

Composition as at 31 December 2011:

Mohamed Al Khoori (Chairman), Khalid Deemas Al Suwaidi, Mohamed Esmaeel AlFahim, Salem Al Ameri

Secretary: Rami Raslan

Statement from the Chairman of the Audit & Compliance Committee

During 2011, the Audit & Compliance Committee (the Committee) was composed 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 11 meetings in 2011, during which the Committee worked on the following matters:

- overseeing the financial reporting and disclosure process
- monitoring the choice of accounting policies, principles and judgements
- 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
- reporting regularly to the Bank's Board of Directors

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

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

Mohamed Al Khoori

Chairman of the Board's Audit & Compliance Committee

2. Corporate Governance Committee

Composition as at 31 December 2011:

Salem Al Ameri (Chairman), Mohamed Al Khoori, Abdulla Al Mutawa, Sheikh Sultan Al Dhaheri

Secretary: Sonya Santolin

Statement from the Chairman of the Corporate Governance Committee

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

The Committee held three meetings over the course of 2011. Amongst other things, in 2011 the Corporate Governance Committee worked on the following matters:

- appointment of Adviser to the Board of Directors
- performance evaluation of individual Directors and the Board of Directors, and the adoption and monitoring of the action plan arising from the performance evaluation
- monitoring of professional development opportunities for Directors including surveys, analysis of findings, evaluation of professional development opportunities, and monitoring delivery and quality of programmes
- amendments to the Bank's Articles of Association to better reflect the Bank's governance framework
- reviewing and recommending amendments to Board and management committees' terms of reference
- Directors' professional development programmes
- ongoing review of international developments in corporate governance and assessment of Bank's practices
- considering corporate governance sponsorships
- considering international developments in corporate governance best practices
- publication of corporate governance information
- making recommendations to the Board and Board Committees on governance matters

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 2011 in the implementation of the Bank's corporate governance initiatives. The Bank's initiatives were recognised by:

- World Finance Magazine's award for 'Best Corporate Governance' in the UAE for the second year in a row; and
- The Allied Compliance Consultants 3rd Annual International GRC & Financial Crimes Conference and Exhibition as the 'Financial Institution of the Year', in recognition of the Bank's excellent initiatives in corporate governance, protecting stakeholders' interests and raising investor trust and confidence.

Salem Al Ameri

Chairman of the Board's Corporate Governance Committee

3. Nomination, Compensation & HR Committee
Composition as at 31 December 2011:

Mohamed Al Hameli (Chairman), Eissa Al Suwaidi, Jean–Paul Villain, Khalid Deemas Al Suwaidi
Secretary: Sonya Santolin

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

During 2011, the Nomination, Compensation & HR Committee met five times and considered the following matters:

- selection and appointment of Directors
- Directors' remuneration and fees
- CEO performance evaluation and remuneration
- Bank's remuneration policy for directors, senior management and staff
- establishment of new variable pay schemes in line with international best practices
- compensation and bonus recommendations
- 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
- 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 and risk perspective, and to ensure effective recruitment, retention and development of staff.

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

4. Risk & Credit Committee

Composition as at 31 December 2011:

Eissa Al Suwaidi (Chairman), Mohamed Al Hameli , Abdulla Al Mutawa, Mohammed Al Dhaheri

Secretary: Rami Raslan

Statement from the Chairman of the Risk & Credit Committee

During 2011, the Risk & Credit Committee (the Committee) comprised four non-executive Directors.

As a result of the delegation of certain powers of the Committee to the management, the Committee held 20 meetings in 2011, which was six meetings fewer than in 2010. 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 2011, 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. The Committee:

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

Throughout 2011 the Committee conducted risk strategy and policy meetings on a frequent basis (three meetings were held focusing only 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 2011 towards meeting its responsibilities.

Eissa Al Suwaidi

Chairman of the Board's Risk & Credit Committee

Board member remuneration paid during 2011 for year 2010

	Director fees (AED per annum)
Chairman of Board	750,000
Vice Chairman	625,000
Director	500,000

Fees paid for Board committee meetings attendance in 2011

	Fees for attendance at Board Committee meetings (other than Audit and Compliance Committee)	Fees for attendance at Audit and Compliance Committee meetings
Committee Chairman	5,000	7,500
Committee member	4,000	6,000

Directors' interests in the Bank's shares

Name	Shareholding at 1 January 2011	Shareholding at 31 December 2011	Change in shareholding
Abdulla Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat	689,655[1]	2,389,655[2]	1,700,000
Eissa Al Suwaidi	0	0	0
Jean–Paul Villain	6,012	6,012	0
Khalid Deemas Al Suwaidi	0	0	0
Mohammed Ali Al Dhaheri	0	0	0
Mohamed Al Fahim	0	0	0
Mohd Sultan Al Hameli	0	0	0
Mohamed Darwish Al Khouri	837,325	837,325	0
Salem Mohd Al Ameri	0	0	0
Sheikh Sultan Al Dhahiri	100,000	100,000	0

[1] Includes restricted units in the Bank's LTIP scheme of which 689,655 will vest on 31 December 2012.

[2] Includes restricted units in the Bank's LTIP scheme, of which (1) 689,655 will vest on 31 December 2012 and (2) 1,200,000 will vest on 31 December 2013.

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 2011 performance evaluation process was led by the Chairman, supported by the Board Secretary, utilising experience that was learned from previous evaluations. Since the Bank's policy is to retain an external consultant every three years to ensure objectivity in the performance evaluation process, in 2011 the performance evaluation was conducted in-house. Any necessary changes identified by the 2011 performance evaluation will be implemented during 2012. Material changes identified in the 2010 performance evaluation, which were implemented in 2011, included enhancing the Board's:

- monitoring of the Bank's strategy through more frequent updates and greater transparency in the implementation of strategy;
- re-alignment of management and Board strategy meetings, refinements to management and Board workshops;
- monitoring of the Bank's risk governance through more frequent updates, greater transparency, and further opportunities to discuss and debate risk strategy;
- involvement in the recruitment and selection process for new Board members through modifications to the Bank's articles and policies;
- effectiveness in core business areas of the Bank through a series of in-house presentations as well as workshops on the credit analysis process

Related party transactions

For further details about the Bank's related party transactions, please see http://www.adcb.com/about/corpgovernance/overview.asp and Note 34 to the audited financial statements.

Conflicts of interest

As at 31 December 2011, as a result of written declarations submitted by each of the Board members, the Board was satisfied that the other commitments of the Directors do not conflict with their duties.

DIRECTORS' REMUNERATION AND INTERESTS IN THE BANK'S SHARES

Remuneration policy

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

Other benefits

As at 31 December 2011, 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.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

DIVIDEND POLICY

The Bank has not adopted a formal dividend policy. For the 2011 year, the Board recommended a dividend of 20 percent of the Bank's capital. Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

INTERNAL CONTROLS

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

In 2011, 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 management has taken or is taking the necessary action to remedy any failings or weaknesses identified.

During 2011, continued emphasis was given to embedding an enhanced culture of compliance through the development of compliance systems and policy infrastructure, and continued focus on regulatory risk management. The group compliance function was strengthened by way of organisation structure and staff skill sets. This has led to an overall improved compliance discipline, particularly in the areas of anti-money laundering, counter-terrorist financing and sanctions compliance procedures. Regulatory reporting and engagement increased considerably over the period.

Audit arrangements

At the 2011 Annual General assembly PricewaterhouseCoopers was appointed as the external auditor of the Bank on the recommendation of the Board of Directors. The Bank's external auditor is paid on a fixed annual fee basis, as approved by the shareholders at the annual general meeting. In 2011, fees paid to external auditors for audit work conducted during the 2011 year totalled AED 1,140,000 for the audit of UAE business and its subsidiaries. In addition PWC was paid AED 491,496 towards non audit work comprising business feasibility studies, advisory, accounting and tax-related services. All non audit work must be pre-approved by the Board Audit & Compliance committee.

In addition to the above the Bank paid M/S Borkar and Mazumdar, an audit firm based in India, a sum of AED 28,496 for the audit of the Indian branches and Deloitte Haskins & Sells a sum of AED 155,935 towards tax consultancy and tax audit.

Internal audits, regulation and supervision

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

MANAGEMENT COMMITTEES

The Bank's Management Executive Committee (MEC) meets weekly and reports to the Board. In 2011 the MEC aligned its agenda with the Board's agenda and introduced fortnightly meetings dedicated to strategy discussions.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

MANAGEMENT REMUNERATION AND INCENTIVES

Guiding principles

Please see details at http://www.adcb.com/about/corpgovernance/overview.asp.

Incentive plans and awards – LTIP

In aggregate, LTIP awards issued in 2011 (for the 2010 year) totalled AED 64,197,000.

For further details about the Bank's LTIP scheme, please see http://www.adcb.com/about/corpgovernance/overview.asp.

Salaries, emoluments and cash bonuses of key management

During 2011, the Bank awarded staff cash bonuses (and LTIP) to reward their strong performance during the 2010 year and to serve as a retention tool.

Staff received cash bonuses worth AED 19,550,000 in aggregate. Of this, nil was allocated to key management. These bonuses were subject to claw-back and retention provisions.

Key management received salaries and other emoluments (excluding LTIP and cash bonuses) worth AED 21,052,612 in aggregate.

For these purposes, key management staff means the CEO and his direct reports.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

Variable pay
During 2011, the Bank worked with external consultants to review its variable pay practices. This review aimed to ensure that the Bank's variable pay practices remained competitive and in line with international best practices. As a result of this review, effective 1 January 2012, the Bank adopted different variable pay plans for different functions of the Bank to ensure alignment to the market and to the relevant group's performance. In addition, the Bank adopted an over-arching Bank-wide deferred compensation framework.

Please see further details at http://www.adcb.com/about/corpgovernance/overview.asp.

STRATEGY SETTING
The Board of Directors is responsible for determining the Bank's strategic direction. In 2011, having achieved its three-year strategy, the Board and senior management agreed strategic priorities for 2012-2016. The Bank is currently in the process of finalising its detailed strategic plan for 2012-2016. The Bank also invested its strategic development, including engaging external consultants to assist in developing a detailed five-year strategy.

Please see further details in the 'ADCB at a Glance' section of this report at http://www.adcb.com/about/corpgovernance/overview.asp.

GOVERNANCE AT ADCB
Please see http://www.adcb.com/about/corpgovernance/overview.asp for an overview of the Bank's governance structure and policies and practices, including the Bank's corporate governance code, code of conduct, disclosure standards, communication with shareholders, and investor relations.

External recognition
The Bank's ongoing achievements in corporate governance resulted in the Bank receiving the following honours in 2011:

- World Finance Magazine's award for 'Best Corporate Governance' in the UAE for the second year in a row; and
- The Allied Compliance Consultants 3rd Annual International GRC & Financial Crimes Conference and Exhibition as the 'Financial Institution of the Year', in recognition of the Bank's excellent initiatives in corporate governance, protecting stakeholders' interests and raising investor trust and confidence

Articles of association
The Bank's articles of association are available on the Bank's website at www.adcb.com/about us/corporate governance. In 2011, the Bank's shareholders approved certain changes to the Bank's articles of association, which, at the time of drafting this report, are subject to approval by regulatory authorities.

Islamic Banking
The Sharia'ah Supervisory Board is composed of:

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

In 2011, the Sharia'ah Supervisory Board met three times to review business progress and to ratify Sharia'ah-related issues submitted for its review during the quarter.

The Bank's Islamic business is a separate business unit comprising the Islamic banking department and Abu Dhabi Commercial Islamic Finance PSC, a wholly owned subsidiary of the Bank.

An internal audit team regularly audits the Islamic Business; in 2011, the Bank carried out a Sharia'ah Audit to check the operational aspects of the product implementation and execution of documents.

The Islamic Business participated in corporate governance forums in 2011 which assessed Islamic banks and financial institutions in the MENA region, and conducted an internal assessment of its internal practices against international benchmarks and identified initiatives for further consideration and implementation in 2012.

Please see further details in the 'ADCB at a Glance' section of this report at http://www.adcb.com/about/corpgovernance/overview.asp and http://www.adcb.com/islamicbanking/home/index.asp.

Further details about ADCB's corporate governance can be found at http://www.adcb.com/about/overview/overview.asp.

Risk Management Strategy

Risk management objectives are clear and ADCB has developed a well established strategy to deliver them, through robust risk management processes and practices. Risks are proactively managed within the Bank, while the framework is flexible to incorporate new businesses the Bank undertakes. The framework is comprehensive and has been communicated from the Board of Directors down to the individual business lines.

Risk management activities broadly take place simultaneously at the following different hierarchy levels.

a) Strategic level: encompasses risk management functions performed by senior management and Board of Directors such as:
- definition and identification of material risks;
- ascertaining the Bank's risk appetite and ensuring business plans are consistent with it;
- formulating strategy and policies for managing risks;
- independent review and challenging of structures;
- establishing adequate systems and controls to ensure that overall risk remains within acceptable levels and the rewards compensate for the risk taken.

b) Management (Macro) Level: encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category.

c) Transaction (Micro) Level: involves 'on-the-line' risk management where risks are actually created. This is the risk management activity performed by individuals who take risk on the Bank's behalf such as front office and loan origination functions. The risk management in those areas is confined to following operational procedures and guidelines set by management.

The Risk Management function starts at the highest level with Board-level committees, with the following committees contributing to risk management:

- Board Risk & Credit Committee (BRCC)
- Board Audit & Compliance Committee (BACC)
- Board Corporate Governance Committee (BCGC)

The following Executive Management-level committees also actively manage risk:

- Assets and Liabilities Management Committee
- Management Risk & Credit Committee
- Management Recoveries Committee

The Bank also has a Chief Risk Officer function, which oversees the Credit risk, Market risk, Operational risk, Consumer risk, Compliance risk, and the Remedial risk functions.

Governance structure by risk type

Capital and Liquidity Risk
- 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; and
- Ensuring regular compliance with the liquidity ratios such as "Advances to stable resources ratio" stipulated by the Central Bank of UAE. Whilst the Central Bank of UAE allows a maximum of 1:1, the Bank has set a stricter internal ratio.

Retail and Wholesale Banking Credit Risk
- Defining and ultimately deciding on the Bank's tolerance for credit risk and the level of returns it expects to achieve for incurring various credit risks;
- Ensuring the development and implementation of the Credit Risk Strategies relevant to each business line, and the policies and procedures for identifying, measuring, monitoring, and controlling Credit Risk; and
- Ensuring that Product Development is subject to adequate procedures and controls before being introduced or undertaken.

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

Operational Risk
- Ensure compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Reporting of operational losses and proposed remedial action; and
- Development of contingency plans.

Responsibilities
Responsibility for risk management is designated at all levels within the Bank. The responsibilities for effective review and challenge reside with senior managers, management risk oversight committees, Internal Audit, BRCC, BACC, BCGC, and the Board of Directors.

The Chief Risk Officer (CRO) is a member of the Management Executive Committee and has overall day-to-day accountability for risk management. The CRO regularly presents a report to the Board summarising developments in the risk environment and performance trends in the key portfolios. The CRO manages the Independent Risk function, which monitors the Bank's risk profile relative to established risk appetite, risk strategy, market developments and policy guidelines.

The Board of Directors 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. Amongst other items, the Board continues to focus on risk management, control and strategy. The Board is also responsible for the Internal Control Framework. It oversees the management of the most significant risks through the regular review of risk exposures and related key controls.

The Audit & Compliance Committee provides assistance to the Board to fulfil its duties to ensure and oversee the Bank's financial statements, the qualifications, independence and performance of the Bank's external and internal auditors, compliance with legal and regulatory requirements and internal policies, and internal control over financial reporting.

Stress testing
In addition to its regular standardised risk reporting process, ADCB carries out (ad hoc) stress tests. Stress testing is a technique used on asset and liability portfolios to determine their reactions to different financial situations. Stress tests are also used to gauge how certain stress factors will affect a company, industry, asset book or the portfolio of the Bank. They are usually simulation models that test hypothetical scenarios.

Several stress tests are conducted, both scheduled and ad hoc, in the form of sensitivity or scenario analysis, either for a specific risk type or for ADCB as a whole. The stress test can represent various economic situations such as severe economic crisis, counterparty failures, and a variety of projected major operational risk events, both systemic and idiosyncratic.

Risk factors
The risk factors which the Bank believes could cause its future performance to differ materially from expectations are described below. However, other factors could also adversely affect the Bank's performance and so the risks discussed in this report should not be considered to be a complete set of all potential/emerging risks and uncertainties.

The Bank's approach to identifying, assessing, managing and reporting risks is documented in various policies, processes and standard operating procedures (SOPs).

A summary of principal risk faced by ADCB

Risk Category	Description	Risk Management
Credit Risk (Retail and Wholesale)	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. 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.	The Board and management have set up committees to review credit risk management, approve overall Bank credit policy, and address all significant credit policy issues. These comprise: Board Risk & Credit Committee (BRCC), Board Audit & Compliance Committee, Board Corporate Governance Committee, Assets and Liabilities Management Committee, Management Risk & Credit Committee, Management Recoveries Committee. ADCB regularly reviews its concentration in a number of areas, i.e. industry sectors, geographic locations, and counterparties as well as groups. Diversification is achieved through setting maximum exposure limits to individual counterparties, groups, sectors, and countries, with excesses reported to the BRCC/MRCC.
Market Risk	Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices, and options' volatilities. 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 through the use of VAR and other market risk limits, 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.
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.
Liquidity Risk	Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.	The Bank's 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 the Bank's reputation.
Capital Risk	Capital risk is the risk that the Bank has inadequate capital resources: to ensure 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.

Risk Category	Description	Risk Management
HR Risk	Human Resource (HR) risk is the risk that people do not follow the Bank's procedures, practices and/or rules, i.e., that they deviate from expected behaviour including lack of appropriate people resource, failure to manage performance and reward, unauthorised or inappropriate employee activity, and failure to comply with employment-related requirements.	People risk is mitigated through the operation of various HR policies. The policies essentially cover the following aspects: Staff code of conduct Recruitment Pre-employment screening Employment agreements Performance management & reward Grievances Exit management Employee feedback
Legal & Compliance Risk	Legal and compliance risk may emanate from non-compliance with legal or regulatory provisions, which regulate the Bank's activities wherever carried out, and which govern the legality of the Bank's activities and their validity and enforceability against third parties, mainly borrowers and guarantors. If these risks are not covered effectively, ADCB may face a number of litigation claims, sanctions, fines/ penalties, or reputational damage.	Legal risk is managed by the Legal Department, while Compliance is owned by the Compliance Division.
Regulatory Risk	Regulatory risk is the risk to earnings, capital, and reputation associated with a failure to comply with regulatory requirements and expectations.	Regulatory risk is owned and managed by the Compliance Function. The primary focus is on adherence to the regulatory requirements currently in place.

2011 was a very active year for ADCB, distinguished by outstanding business performance, expansion, sustained commitment to Emiratisation, and intensive involvement in community projects.

The most significant highlight of the year was the sale of the Bank's interest in RHB Capital Berhard at a profit of AED 1.3 billion. The signing ceremony was witnessed by HH General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, and the YAB Dato' Sri Mohd Najib Tun Abdul Razak, Prime Minister of Malaysia. The ceremony was also attended by senior UAE and Malaysian officials.


ADCB
LONG LIVE AMBITION
SIGNING CEREMONY
ABU DHABI COMMERCIAL BANK
AND
AABAR INVESTMENTS


SIGNING CEREMONY
ABU DHABI COMMERCIAL BANK
AND
AABAR INVESTMENTS

January

Signing agreement with Bank of America Merrill Lynch.

February

ADCB opened its new Sheikh Zayed Road branch, bringing the total across the UAE to 48. Eissa Mohammed Al Suwaidi, the Chairman of ADCB, formally opened the branch at a ceremony attended by ADCB Board Members, Ala'a Eraiqat, Chief Executive Officer, Executive Management Members, VIP customers, and employees.

March

ADCB participated in the Abu Dhabi University Career Fair 2011.

April

HH President of the UAE Polo Cup, presented by ADCB.

May

Ali Darwish, Head of Human Resources at the UAE National Forum.

ADCB staff at the UAE National Forum May 2011.

ADCB's UAE National Development Forum is an initiative unique in the UAE banking industry, bringing together Emiratis working at ADCB and members of government organisations.

An ADCB open day fully immersed more than 60 Emirati jobseekers in the Bank's operations and employee roles, enabling them to learn what is required of potential candidates.

June

The sale of the RHB signing ceremony was witnessed by HH General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, and the YAB Dato' Sri Mohd Najib Tun Abdul Razak, Prime Minister of Malaysia. The ceremony was also attended by senior UAE and Malaysian officials.

July

ADCB became the world's first bank to offer 'Mobi', a patented mobile payment service.

ADCB was named 'Best Commercial Bank' at the Banker Middle East Industry Awards 2011, competing against banks from across the GCC, Jordan, and Lebanon.

August

ADCB periodical board meeting.

ADCB re-launches Islamic Banking, with a new logo and marketing campaign.

September

ADCB held its second UAE National Forum for all Emirati officers and some executive staff members based in Dubai, Sharjah, and the Northern Emirates.

The UAE National Development Forum offered Emiratis working at ADCB the opportunity to strengthen their network, while showcasing ADCB's latest strategy on Emiratisation and presenting key business trends and information on the development needs of UAE nationals.

ADCB and the Export-Import Bank of Korea (KEXIM) signed a partnership agreement to provide comprehensive financing for trade companies in the UAE and Korea. The MoU will help support and finance the significant trade flows of capital and goods between the two countries, and underscores the importance of the UAE as a trade partner for Korea and Korean companies.

ADCB was the only Middle East bank to host a reception at the International Monetary Fund in Washington DC. Many of the world's leading financial and economic thinkers attended.

The first 14 Emirati employees graduated from ADCB's Aspiring Managers programme, a 10-month course designed to prepare national staff for management positions within their respective industries – incorporating classroom work, practical business projects, and workshops.

October

ADCB and Khalifa Fund for Enterprise Development entered into an exclusive and unique partnership to support SME's across the UAE. The alliance was created to jointly facilitate the mobilisation of funds to new and budding entrepreneurs and existing small and medium-scale enterprises for growth and expansion.

Under the patronage of HE Sheikh Hamdan bin Mubarak Al Nahyan, Minister of Public Works and Chairman of the National Corporation of Tourism & Hotels (NCTH), ADCB and NCTH announced the financing of the new five-star Hotel Le Bristol in Abu Dhabi.

The Bank was title sponsor of 'Pink Polo' held at Ghantoot Racing & Polo Club in Abu Dhabi and the 'Pink Walkathon' at Burjuman Mall in Dubai.

November

ADCB launches offshore banking with the opening of its Jersey Branch, catering to high net worth Excellency clients and Privilege Club members and providing national and expatriate customers with a wide range of products and services.

Emirates Woman, Woman of the Year in association with ADCB.

ADCB entertains clients at the Abu Dhabi Grand Prix.

December

HE Sheikh Nahyan Bin Mubarak, Minister of Higher Education and Scientific Research, attended the signing ceremony between ADCB and HCT.

HE Sheikh Nahyan Bin Mubarak Al Nahyan, Minister of Higher Education and Scientific Research addressing the audience of students and bank staff.

ADCB celebrates the 40th National Day of the UAE

A group of ADCB National staff outside head office during the National Day celebrations.

ADCB staff with HE Sheikh Nahyan Bin Mubarak Al Nahyan during the Tawdeef career fair in Abu Dhabi.

All ADCB branches were decorated to celebrate the 40th anniversary of UAE National Day and the head Office draped with a flag more than 100 metres long. At night the building was lit in a dazzling display of UAE national colours.

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. ("the Bank") and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 consolidated financial statements that are free from material misstatement, 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 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 entity'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 entity'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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor who expressed an unqualified opinion on those statements on 25 January 2011.

Report on other legal and regulatory requirements

Further, in respect of the Bank, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that we have obtained all the information we considered necessary for the purposes of our audit, the financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and its Articles of Association, the Bank has maintained proper books of account and the financial statements are in agreement therewith, and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as of 31 December 2011.

For **PricewaterhouseCoopers**
26 January 2012

Jacques E. Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Consolidated statement of financial position

as at December 31, 2011

	Notes	2011 AED'000	2010 AED'000	2011 US$'000
ASSETS				
Cash and balances with Central Banks	5	6,629,945	5,887,630	1,805,049
Deposits and balances due from banks	6	20,839,932	18,397,534	5,673,818
Trading securities	7	15,755	–	4,289
Loans and advances, net	8	124,754,737	122,771,870	33,965,352
Derivative financial instruments	9	4,844,764	3,976,969	1,319,021
Investment securities	10	15,052,103	8,263,138	4,098,041
Investments in associates	11	81,817	5,358,199	22,275
Investment properties	12	396,912	289,192	108,062
Other assets	13	10,021,494	12,101,161	2,728,422
Property and equipment, net	14	964,518	1,070,321	262,597
Intangible assets	15	123,653	155,180	33,665
Total assets		183,725,630	178,271,194	50,020,591
LIABILITIES				
Due to Central Banks		48,100	–	13,095
Due to banks	16	3,090,386	4,841,865	841,379
Deposits from customers	17	109,887,477	106,134,185	29,917,636
Mandatory convertible securities – liability component	21	–	29,131	–
Short and medium term borrowings	18	30,808,557	21,019,694	8,387,846
Derivative financial instruments	9	4,821,568	3,854,327	1,312,706
Long term borrowings	19	1,088,452	8,906,109	296,339
Other liabilities	20	11,903,567	13,912,535	3,240,830
Total liabilities		161,648,107	158,697,846	44,009,831
EQUITY				
Share capital	21	5,595,597	4,810,000	1,523,441
Share premium	21	3,848,286	–	1,047,723
Statutory and legal reserves		3,309,351	2,704,179	900,994
General and contingency reserves		2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	24	(104,595)	(36,677)	(28,477)
Foreign currency translation reserve		(27,521)	136,676	(7,493)
Hedge reserve		(2,581)	(537,904)	(703)
Cumulative changes in fair values		(404,758)	174,799	(110,198)
Other reserve		–	5,630	–
Retained earnings		3,708,227	1,524,201	1,009,590
Capital notes	25	4,000,000	4,000,000	1,089,028
Mandatory convertible securities – equity component	21	–	4,633,883	–
Equity attributable to equity holders of the parent		22,072,006	19,564,787	6,009,258
Non-controlling interests		5,517	8,561	1,502
Total equity		22,077,523	19,573,348	6,010,760
Total liabilities and equity		183,725,630	178,271,194	50,020,591

These consolidated financial statements were approved by the Board of Directors and authorized for issue on January 26, 2012.

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer

Deepak Khullar
Chief Financial Officer

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

Consolidated income statement

for the year ended December 31, 2011

	Notes	2011 AED'000	2010 AED'000	2011 US$'000
Interest income	26	7,365,090	7,158,894	2,005,197
Interest expense	27	(2,817,299)	(3,507,961)	(767,029)
Net interest income		4,547,791	3,650,933	1,238,168
Income from Islamic financing	23	351,073	217,541	95,582
Islamic profit distribution	23	(211,093)	(186,269)	(57,471)
Net income from Islamic financing		139,980	31,272	38,111
Total net interest and Islamic financing income		4,687,771	3,682,205	1,276,279
Net fees and commission income	28	898,157	956,253	244,530
Net trading income	29 (a)	335,949	308,284	91,464
Decrease in fair value of investment properties	12	(11,900)	(116,412)	(3,240)
Loss on disposal of subsidiary		–	(992)	–
Other operating income	29 (b)	159,435	170,268	43,407
Operating income		6,069,412	4,999,606	1,652,440
Staff costs		(1,094,956)	(829,541)	(298,109)
Depreciation	14	(149,348)	(101,775)	(40,661)
Amortisation of intangible assets	15	(31,527)	(7,020)	(8,583)
Other operating expenses		(787,394)	(710,646)	(214,374)
Operating expenses		(2,063,225)	(1,648,982)	(561,727)
Operating profit before impairment allowances		4,006,187	3,350,624	1,090,713
Impairment allowances on loans and advances, net	39.6	(2,082,360)	(2,859,578)	(566,937)
Other impairment allowances	30	(315,468)	(427,493)	(85,888)
Share of profit of associates	11	158,658	336,294	43,195
Net gain on sale of investment in associate	11	1,314,315	–	357,831
Profit before taxation		3,081,332	399,847	838,914
Overseas income tax expense		(36,221)	(9,232)	(9,861)
Net profit for the year		3,045,111	390,615	829,053
Attributed to:				
Equity holders of the parent		3,025,865	381,001	823,813
Non-controlling interests		19,246	9,614	5,240
Net profit for the year		3,045,111	390,615	829,053
Basic earnings per share (AED/US$)	31	0.51	0.04	0.14
Diluted earnings per share (AED/US$)	31	0.50	0.04	0.14

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

Consolidated statement of comprehensive income

for the year ended December 31, 2011

	2011 AED'000	2010 AED'000	2011 US$'000
Net profit for the year	3,045,111	390,615	829,053
Exchange difference arising on translation of foreign operations	40,196	508,442	10,944
Fair value changes on cash flow hedges on financial assets	(2,581)	–	(703)
Fair value changes on net investment in foreign operation hedges	(66,561)	(430,544)	(18,122)
Fair value changes on available for sale investments	(559,061)	176,744	(152,208)
Fair value changes reversed on disposal/impairment of available for sale investments	52,785	111,474	14,371
Board of Directors' remuneration	–	(5,250)	–
Share in other comprehensive income statement items of associate	(19,098)	68,460	(5,200)
Reversal of related reserve balances on disposal of associate (Note 11)	399,309	–	108,715
Reversal of share in other comprehensive income statement items of associate on disposal of associate (Note 11)	(59,050)	–	(16,077)
Total comprehensive income for the year	2,831,050	819,941	770,773
Attributed to:			
Equity holders of the parent	2,811,804	810,327	765,533
Non-controlling interests	19,246	9,614	5,240
Total comprehensive income for the year	2,831,050	819,941	770,773

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

Consolidated statement of changes in equity

for the year ended December 31, 2011

	Share Capital AED'000	Share premium AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000
Balance at January 1, 2011	4,810,000	–	1,374,483	1,329,696	2,000,000	150,000
Net profit for the year	–	–	–	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–
Fair value changes on cash flow hedges on financial assets	–	–	–	–	–	–
Fair value changes on net investment in foreign operation hedges	–	–	–	–	–	–
Fair value changes on available for sale investments	–	–	–	–	–	–
Fair value changes reversed on disposal/impairment of available for sale investments	–	–	–	–	–	–
Share in other comprehensive income statement items of associate	–	–	–	–	–	–
Reversal of related reserve balances on disposal of associate (Note 11)	–	–	–	–	–	–
Reversal of share in other comprehensive income statement items of associate on disposal of associate (Note 11)	–	–	–	–	–	–
Total comprehensive income/(loss) for the year	–	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–
Shares issued on conversion of MCS (Note 21)	785,597	3,848,286	–	–	–	–
Capital notes coupon paid (Note 25)	–	–	–	–	–	–
Shares purchased (Note 24)	–	–	–	–	–	–
Shares – vested portion (Note 24)	–	–	–	–	–	–
Transfer to statutory reserve (Note 48)	–	–	302,586	–	–	–
Transfer to legal reserve (Note 48)	–	–	–	302,586	–	–
Balance at December 31, 2011	5,595,597	3,848,286	1,677,069	1,632,282	2,000,000	150,000

For the year ended December 31, 2011, the Board of Directors have proposed to pay cash dividends representing 20% of the paid up capital (Note 22).

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

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	Equity attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total equity AED'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
–	–	–	–	–	3,025,865	–	–	3,025,865	19,246	3,045,111
–	40,196	–	–	–	–	–	–	40,196	–	40,196
–	–	(2,581)	–	–	–	–	–	(2,581)	–	(2,581)
–	–	(66,561)	–	–	–	–	–	(66,561)	–	(66,561)
–	–	–	(559,061)	–	–	–	–	(559,061)	–	(559,061)
–	–	–	52,785	–	–	–	–	52,785	–	52,785
–	763	–	(20,072)	211	–	–	–	(19,098)	–	(19,098)
–	(205,156)	604,465	–	–	–	–	–	399,309	–	399,309
–	–	–	(53,209)	(5,841)	–	–	–	(59,050)	–	(59,050)
–	(164,197)	535,323	(579,557)	(5,630)	3,025,865	–	–	2,811,804	19,246	2,831,050
–	–	–	–	–	–	–	–	–	(22,290)	(22,290)
–	–	–	–	–	–	–	(4,633,883)	–	–	–
–	–	–	–	–	(236,667)	–	–	(236,667)	–	(236,667)
(100,800)	–	–	–	–	–	–	–	(100,800)	–	(100,800)
32,882	–	–	–	–	–	–	–	32,882	–	32,882
–	–	–	–	–	(302,586)	–	–	–	–	–
–	–	–	–	–	(302,586)	–	–	–	–	–
(104,595)	(27,521)	(2,581)	(404,758)	–	3,708,227	4,000,000	–	22,072,006	5,517	22,077,523

Consolidated statement of changes in equity

for the year ended December 31, 2011 continued

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000
Balance at January 1, 2010	4,810,000	1,336,383	1,291,596	2,000,000	150,000
Net profit for the year	–	–	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–
Fair value changes on net investment in foreign operation hedges	–	–	–	–	–
Fair value changes on available for sale investments	–	–	–	–	–
Fair value changes reversed on disposal of available for sale investments	–	–	–	–	–
Board of Directors' remuneration	–	–	–	–	–
Share in comprehensive income statement items of associate	–	–	–	–	–
Total comprehensive income/(loss) for the year	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–
Capital notes coupons paid (Note 25)	–	–	–	–	–
Shares purchased (Note 24)	–	–	–	–	–
Shares – vested portion (Note 24)	–	–	–	–	–
Transfer to statutory reserve (Note 48)	–	38,100	–	–	–
Transfer to legal reserve(Note 48)	–	–	38,100	–	–
Disposal of subsidiary	–	–	–	–	–
Balance at December 31, 2010	4,810,000	1,374,483	1,329,696	2,000,000	150,000

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

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

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
(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
–	–	–	–	–	381,001	–	–	381,001	9,614	390,615
–	508,442	–	–	–	–	–	–	508,442	–	508,442
–	–	(430,544)	–	–	–	–	–	(430,544)	–	(430,544)
–	–	–	176,744	–	–	–	–	176,744	–	176,744
–	–	–	111,474	–	–	–	–	111,474	–	111,474
–	–	–	–	–	(5,250)	–	–	(5,250)	–	(5,250)
–	(18,030)	–	80,860	5,630	–	–	–	68,460	–	68,460
–	490,412	(430,544)	369,078	5,630	375,751	–	–	810,327	9,614	819,941
–	–	–	–	–	–	–	–	–	(66,562)	(66,562)
–	–	–	–	–	(243,333)	–	–	(243,333)	–	(243,333)
(47,085)	–	–	–	–	–	–	–	(47,085)	–	(47,085)
23,846	–	–	–	–	–	–	–	23,846	–	23,846
–	–	–	–	–	(38,100)	–	–	–	–	–
–	–	–	–	–	(38,100)	–	–	–	–	–
–	–	–	–	–	–	–	–	–	(3,578)	(3,578)
(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

Consolidated statement of cash flows

for the year ended December 31, 2011

	2011 AED'000	2010 AED'000	2011 US$'000
OPERATING ACTIVITIES			
Net profit before taxation and non-controlling interests	3,081,332	399,847	838,914
Adjustments for:			
Depreciation on property and equipment (Note 14)	149,348	101,775	40,661
Amortisation of intangible assets (Note 15)	31,527	7,020	8,583
Dividend income	(8,879)	(9,400)	(2,417)
Decrease in fair value of investment properties (Note 12)	11,900	116,412	3,240
Allowance for doubtful loans and advances (Note 39.6)	2,303,106	3,143,047	627,037
Recovery of allowance for doubtful loans and advances (Note 39.6)	(220,746)	(283,469)	(60,100)
Discount unwind (Note 39.6)	(177,216)	–	(48,248)
Impairment allowance on credit default swaps (Note 30)	204,438	178,317	55,660
Impairment allowance on investment securities (Note 30)	53,590	249,176	14,590
Impairment allowance on property and equipment, net (Note 30)	57,440	–	15,638
Net (gain)/loss from sale of investment securities (Note 29(a))	(36,334)	4,444	(9,892)
Imputed interest on mandatory convertible securities	(29,131)	(79,918)	(7,931)
Share of profit of associates (Note 11)	(158,658)	(336,294)	(43,196)
Gain on sale of associate (Note 11)	(1,314,315)	–	(357,831)
Loss on disposal of subsidiary	–	992	–
Ineffective portion of hedges (Note 9)	5,673	511	1,545
Board of Directors' remuneration	5,584	–	1,520
Employees' incentive plan benefit expense (Note 24)	32,882	23,846	8,952
Operating profit before changes in operating assets and liabilities	3,991,541	3,516,306	1,086,725
Due from Central Banks	(750,000)	–	(204,193)
(Decrease)/increase in due from banks	453,360	(4,293,390)	123,430
(Decrease)/increase in net trading derivative financial instruments	76,493	(20,481)	20,826
Increase in loans and advances	(3,888,011)	(9,015,356)	(1,058,538)
Decrease/(increase) in other assets	453,947	(913,920)	123,590
Increase in due to banks	(2,034,819)	(92,267)	(553,994)
Increase in deposits from customers	3,962,029	19,619,196	1,078,690
(Decrease)/increase in other liabilities	(886,812)	137,490	(241,440)
Cash from operations	1,377,728	8,937,578	375,096
Board of Directors' remuneration paid	(5,250)	–	(1,429)
Net cash from operations	1,372,478	8,937,578	373,667

	2011 AED'000	2010 AED'000	2011 US$ 000
INVESTING ACTIVITIES			
Disposal of associate (Note 11)	7,111,817	–	1,936,242
Dividend received from associate	36,697	133,701	9,991
Disposal of subsidiary	–	55,148	–
Dividend received from investment securities	8,879	9,400	2,417
Trading securities purchased	(15,755)	–	(4,289)
Gain on sale of investments	36,334	–	9,892
Purchase of available for sale investment securities	(7,504,405)	(6,259,523)	(2,043,127)
Net proceeds from disposal of available for sale investment securities	622,487	2,481,098	169,476
Net consideration paid on acquisition of business	–	(168,900)	–
Purchase of property and equipment	(100,985)	(167,520)	(27,494)
Sale of property and equipment	–	4,617	–
Additions to investment properties	(119,620)	(73,583)	(32,567)
Net cash from/(used in) investing activities	75,449	(3,985,562)	20,541
FINANCING ACTIVITIES			
Dividends paid to non-controlling interests	(22,290)	(66,562)	(6,069)
Net proceeds/(payment) from short, medium and long term borrowings	1,497,179	(7,289,093)	407,618
Capital notes coupons paid	(236,667)	(243,333)	(64,434)
Disposal of non-controlling interests	–	(3,578)	–
Employees' incentive plan shares related payment	(100,800)	(47,085)	(27,444)
Net cash from/(used in) financing activities	1,137,422	(7,649,651)	309,671
Increase/(decrease) in cash and cash equivalents	2,585,349	(2,697,635)	703,879
Cash and cash equivalents at the beginning of the year	16,676,284	19,373,919	4,540,235
Cash and cash equivalents at the end of the year (Note 33)	19,261,633	16,676,284	5,244,114

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

1 Activities and areas of operations

Abu Dhabi Commercial Bank P.J.S.C. ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). ADCB is principally engaged in the business of retail banking, commercial banking and Islamic banking and provision of other financial services through its network of forty eight branches and four pay offices in the U.A.E., two branches in India and one Offshore branch in Jersey, its subsidiaries 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 effective for accounting periods beginning January 1, 2011

There are no IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2011 that have had a material impact on Bank's consolidated financial statements.

2.2 Standards and Interpretations in issue not yet effective

The Bank has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
Amendments to IAS 1, Presentation of Financial Statements – revise the way other comprehensive income is presented, with grouping of items on the basis of whether they are potentially reclassifiable to profit and loss subsequently.	July 1, 2012
The amendments to IFRS 7, Financial Instruments: Disclosures – The amendment to IFRS 7 introduces disclosure requirements for financial assets and liabilities that are offset in statement of financial position or are subject to master netting arrangements or similar agreements.	January 1, 2013
Amendments to IAS 12, Income Taxes – Limited scope amendment on recovery of underlying assets.	January 1, 2012
Amendments to IAS 19, Employee Benefits – Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects, requiring recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, with all actuarial gains and losses recognized immediately through other comprehensive income.	January 1, 2013
IAS 27, Separate Financial Statements (revised 2011) and IAS 28, Investments in Associates and Joint Ventures (revised 2011) – Revision as required by IFRS 10, IFRS 11 and IFRS 12.	January 1, 2013
The amendments to IAS 32, Financial Instruments: Presentation – The amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. An entity will have a legally enforceable right to set off only if it is non-contingent in nature and is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.	January 1, 2014
IFRS 10, Consolidated Financial Statements – Replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities. Under IFRS 10 there is only one basis of consolidation, that is control, for which a new definition has been included.	January 1, 2013
IFRS 11, Joint Arrangements – Replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It deals with how a joint arrangement of which two or more parties have joint control should be classified and requires that joint ventures are accounted for using the equity method of accounting.	January 1, 2013
IFRS 12, Disclosure of Interests in Other Entities – Replaces the requirements previously included in IAS 27 – Consolidated and Separate Financial Statements, IAS 31 – Interests in Joint Ventures and IAS 28 – Investments in Associates. In general, the disclosure requirements are more extensive than the current standards.	January 1, 2013
IFRS 13, Fair Value measurement – represents the completion of the joint project to establish a single source for the requirements on how to measure fair value under IFRS. The Standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and improving disclosure requirements for use across IFRSs.	January 1, 2013
IFRS 9, Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39)	January 1, 2015

Key requirements of IFRS 9 are described as follows:

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.

Management anticipates that these IFRSs and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. An initial assessment of the potential impact indicates that application of most of these standards is not expected to have significant impact on amounts reported in the consolidated financial statements, but it is expected that additional disclosures will be required. The Bank is yet assess IFRS 9's full impact, particularly as the hedging and impairment aspects of IFRS 9 are still outstanding and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2013.

3 Summary of significant accounting policies

3.1 Basis of preparation

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).

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

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, trading and investment securities outside the U.A.E. have been presented under the respective notes.

Certain items have been reclassified from the Bank's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items. Refer Note 9, 13, 20 and 43. These have further resulted in corresponding revisions to Note 40, 41 and 42. Also, in the current year's income statement the Bank's share of profit of associates has been presented below operating profit rather than, as in 2010, as component of operating income.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities (including derivatives) at fair value through profit and loss, available for sale financial assets and investment properties.

3.3 Functional and presentation currency

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$) amounts in the primary segment of the financial statements are presented for the convenience of the reader only by converting the AED balances at pegged exchange rate of 1 US$ = 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 4.

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 "ADCB or the "Bank") as set in Note 47.

Subsidiaries

Subsidiaries are all entities, including special purpose entities (SPE), over which the Bank has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by holding more than one half of the voting rights. Subsidiaries are consolidated from the date that the Bank gains control until the date that control ceases.

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.

3 Summary of significant accounting policies continued

3.5 Basis of consolidation continued

Subsidiaries continued

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 of 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 interests 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 interests' in the consolidated financial statements

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risks and rewards, the Bank concludes that it controls the SPE.

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 or is the principal investor. Information about the Funds managed by the Bank is set out in Note 46.

Loss of control

Upon the loss of control, the Bank derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Bank's accounting policy for financial instruments depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates

The consolidated financial statements also include the attributable share of the results and reserves of associates using the equity method of accounting. Investments in associates are initially recognised at cost.

3.6 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.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates 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 are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognized in either the income statement or shareholders' equity depending upon the treatment of the gain or loss on the asset or liability.

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 currency 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 a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where 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.

3.7 Financial instruments

(i) Date of recognition

All financial assets and liabilities are initially recognized on the date at which the Bank becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognized on settlement date basis (other than derivative contracts). Settlement date is 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 are recognised for assets carried at cost or amortised cost.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value, plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives

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 are initially measured at 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.

(iv) Investment Securities

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.

Investment securities are classified into the following categories depending on the nature and purpose of the investment:

i) Investments at fair value through profit or loss;
ii) Available for sale and
iii) Held-to-maturity investments.

Financial assets and liabilities designated at fair value through profit or loss (FVTPL)

Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability 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.

3 Summary of significant accounting policies continued

3.7 Financial instruments continued

Financial assets and liabilities designated at fair value through profit or loss (FVTPL) continued

A financial asset or liability other than 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 for measuring assets or liabilities on a different basis; or
- It 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 and liabilities 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 positive 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 assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available for sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Bank establishes fair value by using valuation techniques (e.g. recent arms length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the 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.

If an available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset.

Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

- If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating 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.

Deposits and balances due from banks and loans and advances, net

'Deposits and balances due from banks' and 'Loans and advances, net' include non–derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. Placements with inter-bank represent the time bound term deposits placed.

After initial measurement at fair value plus any directly attributable transaction costs, amounts 'Deposits and balances due from banks' and 'Loans and advances, net' are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

Debt issued and other borrowed funds

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss, are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognized initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

Other financial liabilities

Other financial liabilities, 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.

Reclassification of financial assets

Effective from 1 July 2008, accounting standards permit re-classification in certain circumstances, non–derivative financial assets out of the Held–for–trading category and into the Available–for–sale, Loans and receivables, or Held–to–maturity categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the Available–for–sale category and into the Loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which is recognized as the new amortised cost.

For a financial asset reclassified out of the Available–for–sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

The Bank may reclassify a non–derivative trading asset out of the Held–for–trading category and into the Loans and receivables category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3 Summary of significant accounting policies continued

3.7 Financial instruments continued

Derecognition of financial assets and financial liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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.

3.8 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.

3.9 Securities borrowing and lending

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 nor are lent securities derecognised. Cash collateral received or given is treated as a loan or deposit. 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. The securities borrowing and lending activity arrangements are generally entered through Total return swap contracts.

3.10 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.

3.11 Loan impairment

Refer to credit risk management section – Note 39.

3.12 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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.

3.13 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. For certain classes of assets, the Bank engages internationally reputed valuers to employ valuation techniques to determine fair values. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank and incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The valuers calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out. Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

In particular, the fair value of the financial assets are determined as below:

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

3.14 Hedge accounting

Derivatives designated as hedges are classified 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 in this way 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'.

3 Summary of significant accounting policies continued

3.14 Hedge accounting continued

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. 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 the carrying value of 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 or derecognition.

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 and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and 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 from other comprehensive income.

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 and held in the 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 reclassified from other comprehensive income and 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 under Net trading income.

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 under Net trading income.

3.15 Equity instruments

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

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

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

(a) The instrument includes no contractual obligation:
- to deliver cash or another financial asset to another entity; or
- 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:
- a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
- 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.

3.16 Treasury shares and contracts on own shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.17 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.

3.18 Acceptances

Acceptances have been considered within the scope of IAS 39 Financial Instruments: Recognition and Measurement) and are recognised as a 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.

3.19 Collateral pending sale

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

3.20 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, generally accompanying a shareholding of between 20% to 50% of the voting rights, 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.

3.21 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.

3 Summary of significant accounting policies continued

3.21 Impairment of non-financial assets continued

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

3.22 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee – Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor – Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.23 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 investment 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 are 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.

3.24 Property and equipment

Property and equipment (including property and equipment under operating leases where the bank is the lessor) are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the consolidated 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 and freehold improvements	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories	3 to 10 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.25 Business combinations and Goodwill

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.

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.

3.26 Capital work in progress

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

3.27 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.

3.28 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.

3.29 Mandatory convertible securities

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

3.30 Employee benefits

i) 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 to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed 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.

3 Summary of significant accounting policies continued

3.30 Employee benefits continued

iv) Employees' incentive plan shares continued

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 31).

3.31 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 are 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 only 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, 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.

3.32 Fiduciary activities

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

3.33 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 36 on Business Segment reporting.

3.34 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 other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity respectively.

3.35 Intangible assets

The Bank's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives are as follows:

Credit card customer relationships	3 years
Wealth Management customer relationships	4 years
Core deposit intangibles	5 years

3.36 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Dividend income

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

iii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'. This includes any ineffectiveness recorded in hedging transactions.

3 Summary of significant accounting policies continued

3.37 Islamic financing

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala.

Murabaha financing

A sale contract whereby the Bank sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Bank purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions.

Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijara financing

Ijara financing is an agreement whereby the Bank (lessor) leases or constructs an asset based on customer (lessee) request and promise to lease the assets 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 rewards related to the ownership of the leased asset to the lessee.

Ijara income is recognised on an effective profit rate basis over the lease term.

Mudaraba

A contract between the Bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by Rab Al Mal.

Income is recognised based on expected results adjusted for actual on distribution by the Mudarib, whereas the losses are charged to the Bank's income statement on their declaration by the Mudarib.

Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Bank (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue in Salam financing is recognised on effective profit rate basis over period of contract based on Salam capital outstanding.

Wakala

An agreement between the bank and customer whereby one party (Rab Al mal) provides a certain sum of money to an agent(Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). 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.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

4 Significant accounting judgments, estimates and assumptions

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.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (real estate prices indices, country risk and the performance of different individual groups, etc).

The impairment loss on loans and advances is disclosed in more detail in Note 39.6.

Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. 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.

The impairment loss on available for sale investments is disclosed in more detail in Note 10.

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.

Fair valuation of investment properties

The fair value of investment properties is based on current prices in an active market for properties of a similar nature, condition or location. The Bank uses the valuation carried out by its independent valuers as the fair value of its investment properties. The valuation is based upon assumptions such as market conditions, market prices, future rental income and period, etc.

The fair value movements on investment properties is disclosed in more detail in Note 12.

5 Cash and balances with Central Banks

	2011 AED'000	2010 AED'000
Cash on hand	547,769	524,961
Balances with Central Banks (*)	5,082,176	4,612,669
Certificate of deposits with U.A.E. Central Bank	1,000,000	750,000
	6,629,945	5,887,630

(*) Balances with Central Banks include reserve requirements of AED 5,053,934 thousand as at December 31, 2011 (December 31, 2010 – AED 4,022,286 thousand) with the Central Bank of the U.A.E.

The geographical concentration is as follows:

	2011 AED'000	2010 AED'000
Within the U.A.E.	6,601,201	5,861,148
Outside the U.A.E.	28,744	26,482
	6,629,945	5,887,630

6 Deposits and balances due from banks

	2011 AED'000	2010 AED'000
Current and demand deposits	257,728	280,314
Placements	17,592,265	16,337,710
Murabaha placements	2,249,000	1,624,000
Wakala placements	740,939	155,510
	20,839,932	18,397,534

The geographical concentration is as follows:

	2011 AED'000	2010 AED'000
Within the U.A.E.	12,798,544	8,898,826
Outside the U.A.E.	8,041,388	9,498,708
	20,839,932	18,397,534

7 Trading securities

	2011 AED'000	2010 AED'000
Quoted – U.A.E. bonds	15,755	–

Trading securities represent investments in public sector bonds. The fair value of these investments is based on quoted market prices. The bonds yield a fixed coupon rate in the range of 3.75% – 6.75%. per annum.

8 Loans and advances, net

	2011 AED'000	2010 AED'000
Overdrafts (Retail and Corporate)	9,949,513	15,192,902
Corporate Loans	101,565,326	94,090,395
Retail Loans	12,303,074	12,994,545
Credit Cards	2,133,144	2,662,505
Islamic financing (Note 23)	3,749,732	3,226,256
Other facilities	765,824	901,704
	130,466,613	129,068,307
Less: Allowance for impairment (Note 39.6)	(5,711,876)	(6,296,437)
	124,754,737	122,771,870

Allowance for impairment has declined as compared to last year on account of write offs of loans during the year.

The economic sector composition of the loans and advances portfolio is as follows:

	2011			2010		
	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	9,084	–	9,084	9,162	–	9,162
Energy	10,840,212	362,316	11,202,528	3,476,648	275,344	3,751,992
Trading	794,618	15,080	809,698	798,734	7,313	806,047
Contractor finance	1,555,354	64,902	1,620,256	2,368,407	222,824	2,591,231
Development & construction	24,088,820	98,410	24,187,230	22,443,398	–	22,443,398
Real estate investment	12,364,945	191,045	12,555,990	12,277,648	685,593	12,963,241
Transport	2,136,234	512,684	2,648,918	2,439,560	555,336	2,994,896
Personal – retail loans and overdrafts	16,939,914	13,362	16,953,276	18,210,472	291,015	18,501,487
Personal – collateralised	15,360,649	370,741	15,731,390	19,428,356	300,382	19,728,738
Government	2,916,734	–	2,916,734	4,640,851	–	4,640,851
Financial institutions (*)	7,837,634	1,315,783	9,153,417	5,432,391	1,166,205	6,598,596
Manufacturing	1,917,252	123,940	2,041,192	2,275,492	123,976	2,399,468
Services	28,484,388	2,152,512	30,636,900	26,979,736	4,658,219	31,637,955
Others	–	–	–	1,245	–	1,245
	125,245,838	5,220,775	130,466,613	120,782,100	8,286,207	129,068,307
Less: Allowance for impairment (Note 39.6)			(5,711,876)			(6,296,437)
Total			124,754,737			122,771,870

(*) includes investment companies.

During the year, the Bank entered into total return swap agreements whereby loans are pledged and held by counter parties as collateral. The risks and rewards relating to the loans pledged will remain with the Bank. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2011		2010	
	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	4,756,807	2,358,230	–	–

9 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that are affected by variables 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 forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options.

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 (i.e. the transaction is net settled). 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 futures contracts is negligible, as they 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.

9 Derivative financial instruments continued

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 practice.

Certain OTC derivatives trade in less liquid markets 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:

	Fair values	
At December 31, 2011	Assets AED'000	Liabilities AED'000
Derivatives held for trading		
Foreign exchange contracts	110,015	96,112
Interest rate and cross currency swaps	4,070,651	4,050,688
Options	166,578	173,714
Futures	354	227
Commodity and Energy swaps	23,067	21,835
Swaptions	5,903	5,666
	4,376,568	4,348,242
Derivatives held as fair value hedges		
Interest and cross currency swaps	468,196	444,350
Derivatives held as cash flow hedges		
Interest rate swaps	–	2,714
Forward foreign exchange contracts	–	26,262
	4,844,764	4,821,568

At December 31, 2010	Fair values	
	Assets AED'000	Liabilities AED'000
Derivatives held for trading		
Foreign exchange contracts	387,996	366,563
Interest rate and cross currency swaps	3,132,076	3,078,142
Options	160,063	164,061
Futures	–	–
Commodity and Energy swaps	53,348	46,579
Exotic swaps	2,091	1,673
Swaptions	25,628	25,628
	3,761,202	3,682,646
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
	3,976,969	3,854,327

An amount of AED 387,996 thousand of positive fair value in respect of foreign exchange contracts has been reclassified in the statement of financial position as at December 31, 2010 from Other assets to Derivative financial instruments along with AED 366,563 thousand of negative fair value in respect of foreign exchange contracts from Other liabilities to Derivative financial instruments to be consistent and comparable to current year's presentation.

The net hedge ineffectiveness losses relating to the fair value, cash flow and net investment hedges amounting to AED 5,673 thousand (2010 – Losses of AED 527 thousand) have been recognised in the consolidated income statement under " Net trading income".

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 initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. 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 the type of hedge.

10 Investment securities

2011	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)	367,708	–	–	367,708
Collateralised debt obligations (CDOs)	–	–	44,194	44,194
Equity instruments	6,905	–	–	6,905
Bonds	4,641,033	857,742	5,605,453	11,104,228
Mutual funds	35,016	–	–	35,016
Government securities	1,847,763	1,141,628	241,639	3,231,030
Total Quoted	6,898,425	1,999,370	5,891,286	14,789,081
Unquoted:				
Equity instruments	180,423	–	483	180,906
Mutual funds	82,116	–	–	82,116
Total Unquoted	262,539	–	483	263,022
Total available for sale investments	7,160,964	1,999,370	5,891,769	15,052,103

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)	393,319	–	7,346	400,665
Collateralised debt obligations (CDOs)	–	–	30,921	30,921
Equity instruments	12,242	–	–	12,242
Bonds	3,064,324	635,257	1,136,311	4,835,892
Mutual funds	39,149	–	–	39,149
Government securities	1,233,093	1,145,648	303,944	2,682,685
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

At December 31, 2011 quoted bond investments include bonds of fair value AED 4,687,545 thousand (December 31, 2010 : AED 3,262,872 thousand) in public sector companies.

Of the unquoted investments, equity instruments with carrying value of AED Nil (December 31, 2010 – AED 37,079 thousand) have been carried at cost less provision for impairment 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/ floating rate investments through Interest rate swaps and designates these as fair value and cash flow hedges. The negative fair value of these interest rate swaps at December 31, 2011 was AED 447,064 thousand (December 31, 2010 – positive fair value AED 48,286 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement under 'Net trading income'.

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

	2011		2010	
	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	**625,017**	**622,374**	625,232	622,374
Repurchase financing	**3,612,386**	**3,153,793**	603,645	440,760
	4,237,403	**3,776,167**	1,228,877	1,063,134

Further, the Bank pledged investment securities with fair value amounting to AED 1,110,902 thousand (December 31, 2010 – AED 1,203,022 thousand) as collateral against margin calls. The risks and rewards relating to the investments pledged remain with the Bank.

The movement in investment securities for December 31, 2011 and December 31, 2010 is as follows:

	2011 AED'000	2010 AED'000
Fair value at January 1,	**8,263,138**	4,372,744
Acquisitions	**7,504,405**	6,259,523
Disposals	**(622,487)**	(2,398,981)
Transfer from investment in subsidiary to available for sale investments	**–**	39,079
Fair value adjustments	**(48,951)**	239,932
Exchange difference	**9,588**	17
Impairment loss (Note 30)	**(53,590)**	(249,176)
Fair value at December 31,	**15,052,103**	8,263,138

11 Investments in associates

Name of associate	**2011 AED'000**	2010 AED'000
RHB Capital Berhad ("RHB") *	**–**	5,253,664
Al Nokhitha Fund	**56,298**	71,330
ADCB MSCI U.A.E. Index Fund	**25,519**	33,205
Carrying value	**81,817**	5,358,199

* See note below on sale of investment in associate

11 Investments in associates continued

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

	Name of associate	Principal activities	Country of incorporation	Ownership interest December 31 2011	Ownership interest December 31 2010
(a)	RHB Capital Berhad	Wholesale, retail and Islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	–	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.	U.A.E.	21%	21%
(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").	U.A.E.	28%	29%

Sale of investment in associate

In June 2011, the Bank's subsidiary ADCB Malaysia (Holdings) Ltd. Malaysia, entered into a binding sale and purchase agreement ("agreement") for the disposal of its entire equity holding held in RHB for a consideration of AED 7,111,817 thousand. Through this agreement the Bank transferred its risks and rewards with respect to the ownership of RHB to the purchaser and recognized the disposal and gain on disposal in the second quarter of 2011. This investment was treated as an associate until the date the disposal was approved. The total share of profits from RHB recognized in the income statement during the year ended December 31, 2011 amounted to AED 181,376 thousand (2010: AED 339,635 thousand).

The excess of sale consideration over the net carrying value of the investment in associate, net of hedge reserves and translation reserves recycled as on the date of disposal has been included in the 'Net gain on sale of investment in associate' in the consolidated income statement.

Net gain on sale of investment in associate recognised on sale date

	AED'000	AED'000
Sale consideration		7,111,817
Less: Carrying value of investment in associate		(5,402,148)
Add: Cumulative changes in fair values recycled from comprehensive income	53,209	
Add: Other reserves recycled from comprehensive income statement	5,841	59,050
Less: Hedge reserve recycled from comprehensive income	(604,465)	
Add: Foreign currency translation reserve recycled from comprehensive income	205,156	(399,309)
Less: Cost associated with disposal		(55,095)
		1,314,315

The latest available financial information in respect of the Bank's associates is as at and for the year ended December 31, 2011 for Al Nokhitha Fund and ADCB MSCI U.A.E. Index Fund is as follows:

	AED'000
Total assets	365,920
Total liabilities	(10,097)
Net assets	355,823
Bank's share in net assets of associates	81,817
Total operating losses	(80,645)
Total loss for the year	(87,587)
Bank's share in loss of associates	(22,718)

12 Investment properties

	Completed and in use AED'000	Under development AED'000	Total AED'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 January 1, 2011	**215,609**	**73,583**	**289,192**
Additions during the year	**–**	**119,620**	**119,620**
Decrease in fair value	**(7,798)**	**(4,102)**	**(11,900)**
At December 31, 2011	**207,811**	**189,101**	**396,912**

The fair value of the Bank's investment properties are estimated by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Valuations are carried out by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Discounted cash flow techniques may be used to calculate fair value in certain situations where there have been no recent transactions using current external market inputs such as market rents and interest rates. The date of valuation is December 31, 2011.

The valuation methodologies considered by external valuers 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 investment properties of the Bank are located within the U.A.E.

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

	2011 AED'000	2010 AED'000
Rental income	**12,984**	13,859
Direct operating expenses	**1,914**	2,408

13 Other assets

	2011 AED'000	2010 AED'000
Interest receivable	**859,898**	1,137,515
Withholding tax	**87,311**	65,082
Prepayments	**71,336**	77,390
Clearing receivables	**–**	1,848
Acceptances	**8,771,823**	9,367,982
Others	**231,126**	1,451,344
	10,021,494	12,101,161

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the bank and are therefore recognised as a financial liability (Note 20) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. The Bank generally receives cash collateral against these acceptances.

Refer Note 9 for the reclassification of other assets to derivative financial instruments.

14 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 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	–	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 January 1, 2011	623,942	112,548	145,850	368,394	355,095	1,605,829
Exchange difference	(739)	(3)	(727)	(405)	–	(1,874)
Additions during the year	1,157	138	2,567	3,743	95,873	103,478
Transfers	110,341	8,196	6,546	81,211	(206,294)	–
Transfer to expenses	–	–	–	–	(735)	(735)
Impairment loss	–	–	–	–	(57,440)	(57,440)
Disposals during the year	(114)	(19)	(2,985)	(42,958)	–	(46,076)
At December 31, 2011	734,587	120,860	151,251	409,985	186,499	1,603,182
Accumulated depreciation						
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 January 1, 2011	167,732	39,292	95,878	232,606	–	535,508
Exchange difference	(11)	(3)	(689)	(293)	–	(996)
Charge for the year	28,327	17,057	18,510	85,454	–	149,348
Disposals during the year	(62)	(19)	(2,887)	(42,228)	–	(45,196)
At December 31, 2011	195,986	56,327	110,812	275,539	–	638,664
Carrying amount						
At December 31, 2011	538,601	64,533	40,439	134,446	186,499	964,518
At December 31, 2010	456,210	73,256	49,972	135,788	355,095	1,070,321

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

During the year, one of the Bank's property under construction for self-use was assessed for impairment which led to the recognition of an impairment loss of AED 57,440 thousand (2010: AED Nil) in the consolidated income statement. The recoverable amount of the relevant asset was determined on the basis of its fair value less cost to sell. The fair valuation of the property conforms to International Valuation Standards and was determined by reference to recent market transactions on arm's length term by an independent property valuer. No impairment assessment was performed in 2010 as there was no indication of impairment.

15 Intangible assets

		Other intangible assets			
	Goodwill AED' 000	Credit card customer relationship AED' 000	Wealth Management customer relationship AED' 000	Core deposit intangible AED' 000	Total AED' 000
Cost or valuation					
As at January 1, 2010	–	–	–	–	–
Amounts recognised on acquisition of business	18,800	12,700	18,000	112,700	162,200
As at December 31, 2010 and 2011	18,800	12,700	18,000	112,700	162,200
Accumulated amortisation					
As at January 1, 2010	–	–	–	–	–
Amortisation during the year	–	635	750	5,635	7,020
As at January 1, 2011	–	635	750	5,635	7,020
Amortisation during the year	–	4,387	4,600	22,540	31,527
As at December 31, 2011	–	5,022	5,350	28,175	38,547
Carrying amount					
At December 31, 2011	18,800	7,678	12,650	84,525	123,653
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. for consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

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.

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

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

Other intangible assets

Customer relationships	Customer relationship intangible assets 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.

15 Intangible assets continued

Impairment testing of goodwill

No impairment losses on goodwill were recognized during the year ended December 31, 2011 (2010: AED Nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and the business plan in 2011. Cash flows were extrapolated using a rate expected to be realized by these businesses. The forecast period is based on the Bank's current perspective with respect to the operation of these units and range from 3-4 years.
- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on capital asset pricing model using data from US bond and UAE capital markets and range from 14.1% to 17.2%.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

Revision of useful lives of Business combination intangibles

The Bank reviews the estimated useful lives of intangible assets at the end of each year. During the current year, the estimated useful lives of Credit Card and Wealth Management Relationship intangibles were revised based on change in certain assumptions and as a result these intangibles will have the following revised useful lives:

	Original useful lives	Revised useful lives
Credit Card Relationship	5 years	3 years
Wealth Management Relationship	6 years	4 years

The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to increase the amortisation expense in the current year by AED 3,447 thousand.

16 Due to banks

	2011 AED'000	2010 AED'000
Current and demand deposits	574,271	1,001,602
Deposits – banks	2,516,115	3,840,263
	3,090,386	4,841,865

17 Deposits from customers

	2011 AED'000	2010 AED'000
By category		
Call and demand deposits	24,274,344	21,440,127
Savings deposits	2,237,783	1,565,403
Time deposits	64,146,038	67,041,989
Murabaha deposits	9,201,851	6,888,873
Long term government deposits (Note 39.5)	458,940	470,865
Islamic deposits (Note 23)	8,851,869	8,095,260
Euro commercial papers	716,652	631,668
	109,887,477	106,134,185
By sector		
Retail	23,745,120	24,171,282
Corporate	63,288,145	59,550,264
Government	22,854,212	22,412,639
	109,887,477	106,134,185

The Euro commercial paper was 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 designates these instruments as fair value hedges. The fair value of these cross currency swaps at December 31, 2011 amounted AED 7,198 thousand (December 31, 2010: AED 215,932 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement under 'Net trading income'.

18 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2011 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)	72,126	–	–	72,126
	Hong Kong Dollar (HKD)	94,333	–	–	94,333
	Malaysian Ringitt (MYR)	–	–	871,027	871,027
	Slovak Koruna (SKK)	103,758	–	–	103,758
	South African Rand (ZAR)	51,299	–	–	51,299
	Swiss Franc (CHF)	–	–	575,705	575,705
	Turkish Lira (TRY)	–	–	94,003	94,003
	U.A.E. Dirham (AED)	–	1,253,000	–	1,253,000
	US Dollar (US$)	–	3,673,000	–	3,673,000
		321,516	4,926,000	1,540,735	6,788,251
Syndicated loans	US Dollar (US$)	3,789,801	3,739,849	–	7,529,650
	Euro (EUR)	328,015	–	–	328,015
Sukuk financing notes	US Dollar (US$)	–	–	1,836,500	1,836,500
Subordinated floating rate notes	US Dollar (US$)	–	–	1,172,789	1,172,789
Tier 2 loan	U.A.E. Dirham (AED)	–	–	6,617,456	6,617,456
Borrowings through total return swaps	US Dollar (US$)	–	429,374	–	429,374
	U.A.E. Dirham (AED)	2,358,230	193,000	–	2,551,230
Borrowings through repurchase agreements	US Dollar (US$)	2,713,033	440,760	–	3,153,793
		9,510,595	9,728,983	11,167,480	30,407,058
Fair value adjustment on short and medium term borrowings being hedged					401,499
					30,808,557

Included in short and medium term borrowings are AED 9,049,767 thousand which have been hedged using interest rate and cross currency swaps. These swaps are designated as fair value hedges.

18 Short and medium term borrowings continued

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 are AED 9,803,618 thousand which have been hedged using interest rate and cross currency swaps. These swaps are designated as fair value hedges.

Interest on unsecured notes are payable quarterly and half yearly in arrears and the coupon rates as at December 31, 2011 are as follows:

Currency	Within 1 year	1-3 years	3-5 years
AUD	3 months AUD–BBSW plus 30 basis points	–	–
HKD	3 months HIBOR offer rate plus 29 basis points	–	–
SKK	3 months BRIBOR plus 11 basis points	–	–
TRY	–	–	Fixed rate of 12.75% p.a.
ZAR	3 months JIBAR plus 41 basis points	–	–
CHF	–	–	Fixed rate of 3.01% p.a.
MYR	–	–	Fixed rate of 5.2% p.a.
AED	–	Fixed rate of 6% p.a.	–
US$	–	Fixed rate of 4.75% p.a.	–

Syndicated loans

Interest on the syndicated loans are payable as follows:

US$: Monthly coupons in arrears with 25 basis points to 125 basis points over LIBOR and quarterly coupons with 27.5 basis points to 55 basis points.

EUR : Quarterly coupons in arrears with 110 basis points over EURIBOR.

Sukuk financing notes

The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually.

Subordinated floating rate notes

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 110 basis points over 3 months LIBOR. The subordinated floating rate notes were obtained from financial institutions outside the U.A.E. and qualified as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter are amortised at the rate of 20% per annum until 2016 for capital adequacy calculation (Note 48). This has been approved by the Central Bank of the U.A.E.

Tier 2 loan

In March 2009, the Bank converted AED 6,617,456 thousand government deposits into Tier 2 qualifying loans. The Tier 2 qualifying loan will mature seven years from the date of the issue and interest is 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 (Note 48).

Borrowings through total return swaps

Interest on borrowings through total return swaps are payable in quarterly coupons in arrears with 115 to 300 basis points over 3 months LIBOR and EIBOR and half yearly coupons in arrears with 300 basis points over 6 months LIBOR.

Borrowings through repurchase agreements

Interest on borrowings through repurchase agreements are payable in half yearly coupons in arrears with 86 to 128 basis points over 6 months LIBOR and on maturity along with principal at fixed rate from 60 basis points to 96 basis points.

19 Long term borrowings

Instrument	Currency	2011 AED'000	2010 AED'000
Unsecured notes	Turkish Lira (TRY)	–	94,003
	U.A.E. Dirham (AED)	500,000	500,000
	Malaysian Ringitt (MYR)	473,706	476,472
	US Dollar (US$)	73,460	73,460
		1,047,166	1,143,935
Subordinated floating rate notes	US Dollar (US$)	–	1,172,789
Tier 2 loan	U.A.E. Dirham (AED)	–	6,617,456
Fair value adjustment on long term borrowings being hedged		41,286	(28,071)
		1,088,452	8,906,109

Long term borrowings include AED 1,047,166 thousand (December 31, 2010 – AED 570,475 thousand) which have been hedged using interest rate and cross currency swaps. These swaps are designated as fair value hedges.

Interest on unsecured notes are payable half yearly in arrears and the coupon rates as at December 31, 2011 are as follows:

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

20 Other liabilities

	2011 AED'000	2010 AED'000
Interest payable	931,026	1,281,661
Employees' end of service benefits	179,824	166,863
Accounts payable and other creditors	973,519	870,885
Clearing payables	238	12,704
Current income tax payable	–	9,232
Deferred income	171,805	245,450
Acceptances (Note 13)	8,771,823	9,367,982
Others	875,332	1,957,758
	11,903,567	13,912,535

Refer Note 9 for the reclassification of other liabilities to derivative financial instruments.

21 Share capital

	Authorised	Issued and fully paid	
		2011	2010
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	5,595,597	5,595,597	4,810,000

	2011		2010	
	Number of shares	AED'000	Number of shares	AED'000
As at January 1,	4,810,000,000	4,810,000	4,810,000,000	4,810,000
Shares issued on conversion of mandatory convertible securities	785,597,381	785,597	–	–
As at December 31,	5,595,597,381	5,595,597	4,810,000,000	4,810,000

In April 2011, mandatory convertible securities ("MCS") with a nominal value of AED 4,800,000 thousand on which interest had been payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, were converted into ordinary equity shares of the Bank. On conversion, 785,597,381 equity shares were issued at the conversion price of AED 6.11 per share. The difference between the nominal value of the shares and conversion price resulted in share premium.

Reconciliation of share premium is as follows:

	AED' 000
Nominal value of MCS	4,800,000
Less: Nominal value of shares issued on conversion of MCS	(785,597)
Share premium	4,014,403
Less: Mandatory convertible securities – liability component	(144,482)
Less: Issue expenses of MCS	(21,635)
Balance of share premium	3,848,286

As at December 31, 2011, Abu Dhabi Investment Council held 58.083% (December 31, 2010: 64.843%) of the Bank's issued and fully paid up share capital. The change in percentage is due to issue of new equity shares on conversion of mandatory convertible securities in April 2011.

22 Proposed dividend

For the year ended December 31, 2011, the Board of Directors have proposed to pay cash dividends of AED 1,119,119 thousand representing 20% of the paid up capital (December 31, 2010 : AED Nil). This is subject to the approval of the shareholders in the Annual General Meeting.

23 Islamic financing

Islamic financing assets

	2011	2010
	AED'000	AED'000
Murabaha	565,975	509,806
Ijara financing	651,970	483,968
Mudaraba	154,578	428,841
Salam	2,324,991	1,757,126
Others	52,218	46,515
	3,749,732	3,226,256
Less: Allowance for impairment	(20,942)	(15,461)
	3,728,790	3,210,795

Gross Ijara and related present value of the minimum Ijara payments:

	2011 AED'000	2010 AED'000
Less than one year	397,173	231,496
Between one year and five years	189,507	180,890
More than five years	366,669	371,942
Gross Ijara	953,349	784,328
Less: Deferred income	(301,379)	(300,360)
Net Ijara	651,970	483,968
Net present value		
Less than one year	271,187	142,981
Between one year and five years	129,745	111,573
More than five years	251,038	229,414
Total net present value	651,970	483,968

Income from Islamic financing include the following:

	2011 AED'000	2010 AED'000
Murabaha	47,418	35,109
Ijara financing	56,083	29,346
Mudaraba	31,918	29,370
Salam	214,658	123,564
Others	996	152
	351,073	217,541

Islamic deposits include the following:

	2011 AED'000	2010 AED'000
Wadiah – demand deposits	437,980	846,347
Mudaraba savings and term deposits	3,653,439	974,371
Wakala deposits	4,760,450	6,274,542
	8,851,869	8,095,260

Profit distribution to depositors include the following:

	2011 AED'000	2010 AED'000
Mudaraba savings and term deposits	71,071	50,660
Wakala deposits	133,119	135,609
Sukuk	6,903	–
	211,093	186,269

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement – Sukuk amounting to US$ 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually and is due to mature in November 2016. The Sukuk is listed on the London Stock Exchange.

24 Employees' incentive plan shares, net

The Bank has established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank when they meet the vesting conditions. These shares were acquired from the stock market by the Bank at the prevailing market price on the acquisition dates. 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, 2011, the Bank had two incentive plans in force as described below.

Effective date of the grant	January 1, 2010	January 1, 2011
Number of shares granted	27,058,292	25,555,799
The fair value of the granted shares at the grant date in AED thousand	47,085	64,197
Vesting Date	December 31, 2012	December 31, 2013

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

The movement of plan shares is as follows

	2011	2010
Shares outstanding at January 1	38,233,452	13,173,328
Shares granted during the year	25,555,799	27,058,292
Exercised during the year	(20,580,158)	–
Forfeited during the year	(2,720,052)	(1,998,168)
Outstanding as at December 31	40,489,041	38,233,452
Exercisable as at December 31	–	11,704,633
Amount of "Plan" costs recognised in the consolidated statement of income (AED'000)	32,882	23,846

Total number of plan shares forfeited and remain un-allotted with the Bank's subsidiary at December 31, 2011 were 3,440,161 (December 31, 2010 – 2,176,527 shares). Similarly, as at December 31, 2011 the Bank had purchased 13,598 thousand shares for the 2012-2014 plan. The Bank's Nomination/Remuneration and HR Committee's intention is to include these shares in the next incentive plan scheme and allot the same to existing eligible employees.

25 Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier I regulatory capital notes with a principal amount of AED 4 billion (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. 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 the 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.

26 Interest income

	2011 AED'000	2010 AED'000
Loans and advances to banks	214,597	184,105
Loans and advances to customers	6,839,347	6,793,868
Investment securities	311,146	180,921
	7,365,090	7,158,894

27 Interest expense

	2011 AED'000	2010 AED'000
Deposits from banks	25,395	75,724
Deposits from customers	2,078,874	2,529,352
Debt securities issued and subordinated liabilities	404,470	459,596
Interest on mandatory convertible securities and long term notes	308,560	443,289
	2,817,299	3,507,961

28 Net fees and commission income

	2011 AED'000	2010 AED'000
Fees and commission income		
Retail banking fees	639,578	550,725
Corporate banking fees	304,506	402,405
Brokerage fees	3,425	5,149
Fees from trust and other fiduciary activities	49,585	31,891
Other fees	45,195	52,392
Total fees and commission income	1,042,289	1,042,562
Fees and commission expenses	(144,132)	(86,309)
Net fees and commission income	898,157	956,253

29 Net trading income and Other operating income

a) Net trading income	2011 AED'000	2010 AED'000
Net gains on dealing in derivatives	132,582	169,766
Net gains from dealing in foreign currencies	167,033	142,962
Net gains/(losses) from trading and investment securities	36,334	(4,444)
	335,949	308,284

b) Other operating income	2011 AED'000	2010 AED'000
Property management income	99,287	80,681
Rental income	20,917	34,689
Income from retirement of long term debt	1,670	28,652
Dividends received	8,879	9,400
Others	28,682	16,846
	159,435	170,268

30 Other impairment allowances

	2011 AED'000	2010 AED'000
Impairment allowance on investment securities (Note 10)	53,590	249,176
Loss on credit default swaps	204,438	178,317
Impairment allowance on capital work in progress (Note 14)	57,440	–
	315,468	427,493

The losses on credit default swaps arise on the revaluation based on independent third party assessment of positions in 2010 and on final close out of these positions in 2011

31 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2011	2010
Net profit for the year attributable to the equity holders of the Bank (AED'000)	3,025,865	381,001
Add: Interest on Mandatory convertible securities (MCS) for the period (AED'000)	25,564	98,261
Less: Capital notes coupon paid (AED'000)	(236,667)	(243,333)
Net adjusted profit for the year attributable to the equity holders of the Bank (AED'000) (a)	2,814,762	235,929
Weighted average number of shares in issue throughout the period (000's)	5,595,597	4,810,000
Add: Weighted average number of shares resulting from conversion of MCS (000's)	–	785,597
Less: Weighted average number of shares held on account of Employees' incentive plan (000's)	(47,481)	(35,626)
Weighted average number of equity shares used for calculating basic earnings per share (000's) (b)	5,548,116	5,559,971
Add: Weighted average number of shares held on account of Employees' incentive plan (000's)	47,481	35,626
Weighted average number of equity shares used for calculating diluted earnings per share (000's) (c)	5,595,597	5,595,597
Basic earnings per share (AED) (a)/(b)	0.51	0.04
Diluted earnings per share (AED) (a)/(c)	0.50	0.04

32 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

	2011 AED'000	2010 AED'000
Minimum lease payments	65,739	60,712

Non-cancellable operating lease commitments

	2011 AED'000	2010 AED'000
Not later than one year	15,676	15,627
Later than 1 year and not later than 5 years	27	2,672
	15,703	18,299

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 12.

Non-cancellable operating lease receivables

	2011 AED'000	2010 AED'000
Not later than one year	20,959	15,547

33 Cash and cash equivalents

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

	2011 AED'000	2010 AED'000
Cash and balances with Central Banks	6,629,945	5,887,630
Deposits and balances due from banks	20,839,932	18,397,534
Due to Central Banks	(48,100)	–
Due to banks	(3,090,386)	(4,841,865)
	24,331,391	19,443,299
Less: Deposits and balances due from banks and cash and balances with Central Banks – with original maturity more than 3 months	(5,509,565)	(5,218,400)
Add: Due to banks – with original maturity more than 3 months	439,807	2,451,385
	19,261,633	16,676,284

34 Related party transactions

The Bank enters into transactions with major shareholders, Funds under management, directors, senior management and their related entities 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 58.083% (December 31, 2010: 64.843%) of the Banks issued and fully paid up share capital (Note 21). 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:

	2011 AED'000	2010 AED'000
Loans and advances		
To Directors	125,782	99,065
To Key Managers	15,228	16,177
To entities controlled by the ultimate controlling party	25,990,292	18,022,630
	26,131,302	18,137,872

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, 2011 (December 31, 2010: AED Nil).

	2011 AED'000	2010 AED'000
Deposits from customers		
From Directors	26,942	41,240
From Major Shareholders	–	–
From Key Managers	9,997	15,745
From entities controlled by the ultimate controlling party	28,505,919	24,282,836
	28,542,858	24,339,821
Mandatory convertible securities (Note 21)	–	800,000
Tier 2 loan (Note 18)	6,617,456	6,617,456
Capital notes (Note 25)	4,000,000	4,000,000
Commitments and contingent liabilities:		
To Directors	2,065	5,003
To entities controlled by the ultimate controlling party	182,344	242,392
	184,409	247,395

34 Related party transactions continued

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

Interest, fees and commission income:	2011 AED'000	2010 AED'000
– Directors	5,608	2,336
– Key Managers	499	638
– Trust activities	65,000	54,439
– Entities controlled by the ultimate controlling party	635,997	527,537
	707,104	584,950

Interest expense:	2011 AED'000	2010 AED'000
– Directors	170	1,025
– Major Shareholders	9,116	9,715
– Key Managers	286	673
– Entities controlled by the ultimate controlling party	384,020	787,961
	393,592	799,374

	2011 AED'000	2010 AED'000
Interest expenses on Mandatory convertible securities	9,116	16,373
Interest expenses on Tier 2 loan	285,853	364,201
Coupon paid on Capital Notes	236,667	243,333

Remuneration of key management employees and Board of Directors remuneration during the year are as follows:

	2011 AED'000	2010 AED'000
Short term benefits	20,200	45,854
Termination benefits	853	2,232
Share-based payments	20,544	4,099
	41,597	52,185

	2011 AED'000	2010 AED'000
Board of Directors remuneration	5,584	5,250

During 2011, the Bank disposed its holding in one of the investment in associate to an entity controlled by the ultimate controlling party. Refer Note 11 for details.

35 Commitments and contingent liabilities

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

	2011 AED'000	2010 AED'000
Commitments on behalf of customers		
Letters of credit	4,049,791	2,261,976
Guarantees	9,806,027	13,705,166
Commitments to extend credit – Revocable	5,688,356	5,590,046
Commitments to extend credit – Irrevocable	6,313,900	8,257,407
Others	55,095	412,295
	25,913,169	30,226,890
Others		
Commitments for future capital expenditure	274,887	425,319
Commitments to invest in investment securities	230,009	246,380
Commitments to invest in associate	–	387,133
	26,418,065	31,285,722

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.

36 Operating Segments

Effective April 1, 2011, the Bank introduced property management as a separate operating segment. This includes real estate and property management activities which on an aggregated basis meets the reporting threshold as a separate operating component and the results are reviewed regularly by the Bank's chief operating decision maker. Prior to April 1, 2011, these activities were included in corporate support along with other activities. The residual balance in corporate support after reclassification of real estate and property management activities is allocated to other operating segments in proportion to the segmental assets and prior period results have been reclassified to meet the new reporting requirement.

The Bank has four reportable segments, as described below, which are the Bank's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic divisions, the Bank Management Committee reviews internal management reports on at least a quarterly basis.

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

Wholesale banking –	comprises of business banking, cash management, trade finance, corporate finance, investment banking, Indian operations, Islamic financing, infrastructure and strategic client operations. It includes loans, deposits and other transactions and balances with corporate customers.
Consumer banking –	comprises of retail, wealth management and Islamic financing. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and funds management activities.
Investments and treasury –	comprises of central treasury operations, management of the Bank's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Bank's funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements and corporate and government debt securities and trading and corporate finance activities.
Property management –	comprises of real estate management and engineering service operations of subsidiaries – Abu Dhabi Commercial Properties L.L.C., Abu Dhabi Commercial Engineering Services L.L.C., ADCB Real Estate Fund operations and rental income.

36 Operating Segments continued

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 ended December 31, 2011 :

	Consumer banking AED' 000	Wholesale banking AED' 000	Investments and treasury AED' 000	Property management AED'000	Total AED' 000
Net interest and Islamic financing income	2,279,778	1,238,586	1,063,733	105,674	4,687,771
Non-interest income	635,521	344,750	285,120	116,250	1,381,641
Operating expenses	(1,337,475)	(497,414)	(156,065)	(72,271)	(2,063,225)
Operating profit before impairment allowances	1,577,824	1,085,922	1,192,788	149,653	4,006,187
Impairment allowance on loans and advances, net	(1,187,230)	(895,130)	–	–	(2,082,360)
Other impairment allowances	(40,000)	–	(218,028)	(57,440)	(315,468)
Share of (loss)/profit of associates	(22,718)	181,376	–	–	158,658
Profit before taxation	327,876	372,168	974,760	92,213	1,767,017
Overseas income tax expense	–	(36,221)	–	–	(36,221)
Profit for the year	327,876	335,947	974,760	92,213	1,730,796
Net gain on sale of investment in associate	–	1,314,315	–	–	1,314,315
Net profit for the year	327,876	1,650,262	974,760	92,213	3,045,111
Capital expenditure					220,605
As at December 31, 2011					
Segment assets	64,430,343	71,728,699	47,161,658	404,930	183,725,630
Segment liabilities	27,814,765	50,886,621	82,073,228	873,493	161,648,107

The following is an analysis of the Bank's revenue and results by operating segment for the year ended December 31, 2010 :

	Consumer banking AED' 000	Wholesale banking AED' 000	Investments and treasury AED' 000	Property management AED'000	Total AED' 000
Net interest and Islamic financing income	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
Operating expenses	(1,030,838)	(425,228)	(128,667)	(64,249)	(1,648,982)
Operating profit before impairment allowances	1,306,049	1,270,397	733,709	40,469	3,350,624
Impairment allowance on loans and advances, net	(941,252)	(1,918,326)	–	–	(2,859,578)
Other impairment allowances	–	(29,232)	(398,261)	–	(427,493)
Share of (loss)/profit of associates	(3,341)	339,635	–	–	336,294
Profit before taxation	361,456	(337,526)	335,448	40,469	399,847
Overseas income tax expense	–	(9,232)	–	–	(9,232)
Net profit for the year	361,456	(346,758)	335,448	40,469	390,615
Capital expenditure					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

For the purpose of monitoring segment performance and allocating resources between segments, all assets and 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.

2011	Consumer banking AED' 000	Wholesale banking AED' 000	Investments and treasury AED' 000	Property management AED'000	Total AED' 000
External	4,636,113	2,019,280	(701,425)	115,444	6,069,412
Inter-segment	(1,720,814)	(435,944)	2,050,278	106,480	–

2010	Consumer banking AED' 000	Wholesale banking AED' 000	Investments and treasury AED' 000	Property management AED'000	Total AED' 000
External	4,131,921	2,352,286	(1,493,181)	8,580	4,999,606
Inter-segment	(1,795,034)	(656,661)	2,355,557	96,138	–

Geographical information

The Bank operates in two principal geographic areas i.e. 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 associates outside U.A.E. The Bank's operations and information about its segment assets (non-current assets excluding investments in associates and other financial instruments) by geographical location are detailed as follows:

	Domestic		International	
Income	2011 AED'000	2010 AED'000	2011 AED'000	2010 AED'000
Net interest and Islamic financing income	4,585,816	3,663,440	101,955	18,765
Non-interest income	1,430,760	1,286,777	(49,119)	30,624
Share of (loss)/profit of associates	(22,718)	(3,341)	181,376	339,635
Net gain from sale of investment in associate	–	–	1,314,315	–

	Domestic		International	
Non-current assets	2011 AED'000	2010 AED'000	2011 AED'000	2010 AED'000
Investment properties	396,912	289,192	–	–
Property and equipment, net	958,491	1,064,670	6,027	5,651
Intangible assets	123,653	155,180	–	–

37 Financial instruments

37.1 Categories of financial instruments

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

December 31, 2011	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
Assets					
Cash and balances with Central Banks	–	–	–	6,629,945	6,629,945
Deposits and balances due from banks	–	–	–	20,839,932	20,839,932
Trading securities	15,755	–	–	–	15,755
Loans and advances, net	–	–	–	124,754,737	124,754,737
Derivative financial instruments	4,376,568	468,196	–	–	4,844,764
Investment securities	–	–	15,052,103	–	15,052,103
Other assets	–	–	–	9,631,721	9,631,721
Total financial assets	4,392,323	468,196	15,052,103	161,856,335	181,768,957
Liabilities					
Due to Central Banks	–	–	–	48,100	48,100
Due to banks	–	–	–	3,090,386	3,090,386
Deposits from customers	–	–	–	109,887,477	109,887,477
Short and medium term borrowings	–	–	–	30,808,557	30,808,557
Derivative financial instruments	4,348,242	473,326	–	–	4,821,568
Long term borrowings	–	–	–	1,088,452	1,088,452
Other liabilities	–	–	–	9,702,849	9,702,849
Total financial liabilities	4,348,242	473,326	–	154,625,821	159,447,389

December 31, 2010	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale 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	3,761,202	215,767	–	–	3,976,969
Investment securities	–	–	8,263,138	–	8,263,138
Other assets	–	–	–	10,505,497	10,505,497
Total financial assets	3,761,202	215,767	8,263,138	157,562,531	169,802,638
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	3,682,646	171,681	–	–	3,854,327
Long term borrowings	–	–	–	8,906,109	8,906,109
Other liabilities	–	–	–	10,649,643	10,649,643
Total financial liabilities	3,682,646	171,681	–	151,580,627	155,434,954

37.2 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. The accounting policy on fair valuation of financial instruments is set out in Note 3.13

IFRS 7 – Financial Instruments: Disclosures 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. IFRS 7 specifies 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.

December 31, 2011	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets			
Trading securities	15,755	–	–
Derivative financial instruments	–	4,844,764	–
Available-for-sale financial assets			
Quoted	14,789,081	–	–
Unquoted	–	–	263,022
Total	14,804,836	4,844,764	263,022
Financial liabilities			
Derivative financial instruments	–	4,821,568	–

December 31, 2010	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets			
Derivative financial instruments	–	3,976,969	–
Available-for-sale financial assets			
Quoted	8,001,554	–	–
Unquoted	–	–	224,505
Total	8,001,554	3,976,969	224,505
Financial liabilities			
Derivative financial instruments	–	3,854,327	–

The Bank's OTC derivatives in the Trading Book are typically classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available for sale investments is as follows:

	2011 AED'000	2010 AED'000
As at January 1,	224,505	1,065,777
Acquisitions	14,991	736
Matured/disposed during the year	–	(687,310)
Adjustment through comprehensive income	33,777	(9,710)
Transfer into Level 3 securities	29,749	–
Impairment allowance	(40,000)	(144,988)
As at December 31,	263,022	224,505

The net gain amounting to AED Nil (2010 – net gain of AED 2,974 thousand) on disposal of Level 3 investments during the year has been recorded in consolidated income statement under "Net trading income".

38 Risk Management

Ultimate responsibility for setting out risk appetite and for the effective maangement of risk rest with the Board. This is managed through a number of Board level committees; namely Board Risk & Credit Committee (BRCC); Board Audit & Compliance Committee (BACC) and Board Corporate Governance Committee (BCGC), which ensures that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

The Management Executive Committee (MEC) has primary responsibility collectively for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee; Management Risk & Credit Committee and Management Recoveries Committee. The Risk Management function headed by the Bank Chief Risk Officer reports independently to the Board Credit and Risk Committee. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The Audit & Compliance Committee provides assistance to the Board to fulfill its duties to ensure and oversee the Bank's financial statements, independence and performance of the Bank's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

The Internal Audit Group (IAG) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of ADCB's risk management, control and governance processes. The IAG reports directly to the BACC. The IAG consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of ADCB's lending portfolio, controls in operational processes and the integrity of ADCB's information systems and databases. The IAG auditors, alongside the compliance department, also ensure that transactions undertaken by ADCB are conducted in compliance with applicable legal and regulatory requirements, and in accordance with ADCB's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

39 Credit Risk Management

Credit risk is the risk that when, one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk Management is intended to be proactive and reasoned. All types of credit risk are identified, objectively assessed, and, where this is the appropriate response, actively managed. The aim is to anticipate, and where possible, minimize/mitigate risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact on the Bank is high, the risk may be covered by setting up specialized units, e.g., Business Intelligence Unit, operational & Compliance Risk Unit, etc. This allows the Bank to contain the negative effect of unlikely events that might occur.

The Bank endeavours 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.

39.1 Analysis of the ADCB's maximum exposure to credit risk before credit risk mitigants

The following table presents the maximum exposure at 31st December 2011 and 2010 to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any credit risk mitigants and after allowance for impairment and netting where appropriate.

The maximum exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees granted recorded off balance sheet, the maximum exposure to credit risk is the maximum amount that ADCB would have to pay if the guarantees were to be called upon. For loan and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section include only financial assets subject to credit risk. They exclude other financial assets, mainly equity securities held in the trading portfolio or available for sale assets, as well as non-financial assets. The nominal value of off-balance sheet credit related instruments is also shown, where appropriate.

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet items, the amount guaranteed, committed, or endorsed, in most cases the likely exposure is far less due to collateral held, and other credit risk mitigants and other actions taken to manage the Bank's exposure.

	2011			2010		
	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	20,839,932	–	20,839,932	18,397,534	–	18,397,534
Trading securities	15,755	–	15,755	–	–	–
Loans and advances, net	124,754,737	–	124,295,797	122,771,870	–	122,301,005
Investment securities	14,864,292	230,009	15,094,301	8,056,518	246,380	8,302,898
Derivative financial instruments	4,844,764	–	4,844,764	3,976,969	–	3,976,969
Other assets	10,021,494	–	9,862,847	12,101,161	–	11,958,689
Guarantees	–	9,806,027	9,540,991	–	13,705,166	13,393,698
Letters of credit	–	4,049,791	4,009,435	–	2,261,976	2,232,493
Irrevocable commitments to extend credit	–	6,313,900	6,313,900	–	8,257,407	8,257,407
Others	–	55,095	55,095	–	412,295	412,295
Total	175,340,974	20,454,822	194,872,817	165,304,052	24,883,224	189,232,988

39.2 Concentration of Credit Risk

Concentration of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged.

(a) Credit risk concentration by geographical sector

December 31, 2011	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								
Deposits and balances due from banks	12,966,958	2,539,538	641	1,045,915	4,028,500	258,106	274	20,839,932
Trading investments	15,755	–	–	–	–	–	–	15,755
Loans and advances, net	119,779,990	1,860,287	9,145	1,108,616	359,174	375	1,637,150	124,754,737
Derivative financial instruments	2,718,518	–	13,155	123,143	1,496,641	465,026	28,281	4,844,764
Investment securities	6,973,634	1,999,370	–	1,213,864	2,317,999	2,264,246	95,179	14,864,292
Other assets	8,607,808	143,618	382	27,198	304	1,083,537	–	9,862,847
Total assets	151,062,663	6,542,813	23,323	3,518,736	8,202,618	4,071,290	1,760,884	175,182,327
Commitment and contingent liabilities	22,106,426	331,718	225,549	1,789,282	1,724,751	145,214	95,125	26,418,065

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								
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	2,374,973	61,508	3,222	84,480	900,228	420,173	132,385	3,976,969
Investment securities	4,797,090	1,780,905	–	230,402	183,695	1,064,394	32	8,056,518
Other assets	10,880,460	–	–	13,749	–	1,064,480	–	11,958,689
Total assets	141,420,565	10,140,157	351,566	2,649,905	6,102,132	2,691,350	1,805,905	165,161,580
Commitment and contingent liabilities	28,896,999	280,307	9,254	970,370	1,031,104	89,048	8,640	31,285,722

39 Credit Risk Management continued

39.2 Concentration of Credit Risk continued

(b) Credit risk concentration by economic sector

December 31, 2011	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						
Deposits and balances due from Banks	–	–	–	–	20,839,932	20,839,932
Trading securities	–	–	–	10,213	5,542	15,755
Loans and advances, net	62,231,211	32,692,384	17,727,756	2,916,734	9,186,652	124,754,737
Derivative financial instruments	2,586,055	128,807	–	–	2,129,902	4,844,764
Investment securities	984,607	–	4,687,545	3,231,030	5,961,110	14,864,292
Other assets	9,329,350	217,459	245,777	10,474	59,787	9,862,847
Total assets	75,131,223	33,038,650	22,661,078	6,168,451	38,182,925	175,182,327
Commitment and contingent liabilities	14,424,855	7,090,863	350,744	402,596	4,149,007	26,418,065

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						
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	–	–	1,665,182	3,976,969
Investment securities	816,919	–	3,262,872	2,682,685	1,294,042	8,056,518
Other assets	10,845,033	48,949	–	–	1,064,707	11,958,689
Total assets	70,555,625	38,409,786	19,366,014	7,323,536	29,506,619	165,161,580
Commitment and contingent liabilities	18,197,933	6,352,252	1,994,864	732,312	4,008,361	31,285,722

As at reporting date, 45 % of the net loans and advances is concentrated by 20 customers (December 31, 2010 – 38 % is concentrated by 20 customers).

39.3 Credit Risk Management Overview

Organisational Framework

The risk structure of the Bank is clearly established with well defined roles and responsiblities as explained in Note 37.

The committees responsible for managing the credit risk are Management Risk & Credit Committee, Management Recoveries Committee and Asset & Liability Committee (ALCO). ADCB risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk Group.

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.

39.4 Credit risk measurement and mitigation policies

Loans and advances to customers is the main source of credit risk to the Bank although ADCB can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Refer Note 39.5).

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.

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. 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; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended December 31, 2011 was AED 83,739,802 thousand (December 31, 2010: AED 85,754,125 thousand).

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 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.

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.

39.5 Portfolio monitoring & identifying credit risk loans

Credit Risk Management is actively involved in identifying and monitoring credit risk loans. It monitors the portfolio through system generated MIS and periodic reviews giving due consideration to industry/general economic trends, market feed back, and media reports.

Within the retail portfolios comprising of homogeneous assets, statistical techniques are deployed to monitor potential weaknesses on a portfolio basis. The approach is consistent with the Bank's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days past due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event, where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the Wholesale Banking portfolio, the Bank will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding and may include rate negotiation, relaxing payment schedules, etc.

39 Credit Risk Management continued

39.5 Portfolio monitoring & identifying credit risk loans continued

Exposure to Credit Risk by days past due

The Bank's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of United Arab Emirates 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 classification of loans and advances by days past due are as follows:

	2011 AED'000	2010 AED'000
Neither past due nor impaired	114,239,761	103,585,163
Overdue but not impaired loans	10,201,566	11,204,991
Past due or impaired		
– Past due and impaired	6,025,286	7,529,562
– Renegotiated and impaired	–	6,748,591
	130,466,613	129,068,307
Less: Allowance for impairment	(5,711,876)	(6,296,437)
	124,754,737	122,771,870

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

	2011 AED'000	2010 AED'000
31 – 60 days	3,102,141	5,797,611
61 – 90 days	7,099,424	5,407,380
Total overdue but not impaired loans	10,201,565	11,204,991

Renegotiated loans

Renegotiated 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.

In 2011, a loan of AED6,748,591 thousand advanced to a customer located in Emirate of Dubai has been transferred from impaired to performing category based on the performance of agreed renegotiated terms.

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 458,940 thousand (December 31, 2010 – AED 470,865 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against the interest free loan to Government (Note 17).

Exposure to Credit Risk by Internal Risk Grades

During the year 2011, the Bank migrated to a new internal grading system which employs ten grades that categorise the Bank's wholesale and high net worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned as performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or default customers.

Credit ratings are used by the Bank to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure.

Our credit grade is not intended to replicate external credit grades but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

The following table represents credit quality of loans and advances that are neither past due nor impaired as at December 31 2011:

Internal risk grades	AED'000
Grades 1 to 4	26,484,039
Grades 5 to 6	48,180,536
Grade 7	23,304,288
Ungraded – Retail loans	16,270,898
	114,239,761

Comparison between old and new ratings methodologies is not feasible particularly since the new rating methodology is more granular and has broader rating scales. Since a restatement of 2010 loan book in line with new ratings will not disclose rating migrations, similar information for 2010 is not presented.

External credit ratings of investment securities

The tables below presents the external credit ratings of the Bank's trading and available for sale investment securities based on Moody's rating scale, wherever Moody's ratings are not available comparable Standard & Poor's equivalent ratings scale is used :

Held for trading securities

Ratings	2011 AED' 000	2010 AED' 000
Aa 2 to Aa 3	8,236	–
A1 to A2	7,519	–
Total	15,755	–

Available for sale investment securities

Ratings	2011 AED' 000	2010 AED' 000
Aaa to Aa 3	6,513,130	4,480,019
A 1 to A 3	5,059,478	2,458,829
Baa1 to Ba 3	1,679,903	280,077
B1 to B 3	706,829	549,167
Not rated	1,092,763	495,045
Total	15,052,103	8,263,137

39.6 Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for loans and advances and investment securities measured at amortised costs at both a specific asset and collective level.

Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence related to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high net worth individual loans, bank loans and advances which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on individual loans and advances which are significant includes the Bank's aggregate exposure to the customer, 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, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or pari passu with the Bank, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession, and likely deduction of any costs involved in recovery of amounts outstanding.

39 Credit Risk Management continued

39.6 Identification and measurement of impairment continued

Individually assessed loans and advances continued

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 but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line impairment allowances.

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

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

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 possesses collateral (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 reporting 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.

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of reporting 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.

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 reporting 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.

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.

Movement of the individual and collective impairment allowance on loans and advances

	2011			2010		
	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,	4,653,146	1,643,291	6,296,437	2,727,403	1,504,854	4,232,257
On acquisition of business	–	–	–	114,368	–	114,368
Charge for the year	1,886,939	416,167	2,303,106	3,004,536	138,511	3,143,047
Recoveries during the year	(220,746)	–	(220,746)	(283,469)	–	(283,469)
Net charge for the year	1,666,193	416,167	2,082,360	2,721,067	138,511	2,859,578
Discount unwind	(177,216)	–	(177,216)	–	–	–
Net amounts written off	(2,487,492)	–	(2,487,492)	(910,130)	(168)	(910,298)
Currency translation	(1,827)	(386)	(2,213)	438	94	532
Balance at December 31,	3,652,804	2,059,072	5,711,876	4,653,146	1,643,291	6,296,437

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.

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.Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 39.4.

Off-balance sheet

The Bank applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

40 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 re-pricing 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.

40 Interest rate risk framework, measurement and monitoring continued

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2011 was as follows:

December 31, 2011	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	–	100,000	900,000	–	–	5,629,945	6,629,945
Deposits and balances due from banks	20,216,822	117,967	239,204	–	–	265,939	20,839,932
Trading Investments	–	–	–	–	–	15,755	15,755
Loans and advances, net	92,191,867	4,088,241	8,368,383	3,595,566	22,222,555	(5,711,875)	124,754,737
Derivative financial instruments	4,038,716	632,610	8,064	25,703	29,656	110,015	4,844,764
Investment securities	7,183,215	7,234,260	96,015	–	154,288	384,325	15,052,103
Investments in associates	–	–	–	–	–	81,817	81,817
Investment properties	–	–	–	–	–	396,912	396,912
Other assets	–	–	–	–	–	10,021,494	10,021,494
Property and equipment, net	–	–	–	–	–	964,518	964,518
Intangibles assets	–	–	–	–	–	123,653	123,653
Total assets	123,630,620	12,173,078	9,611,666	3,621,269	22,406,499	12,282,498	183,725,630
Liabilities							
Due to Central banks	13,840	–	–	–	–	34,260	48,100
Due to Banks	2,641,191	295,421	3,178	–	–	150,596	3,090,386
Deposits from customers	77,148,843	20,526,823	9,553,519	2,308,872	4,361	345,059	109,887,477
Short and medium term borrowings	15,916,633	13,811,875	678,550	–	–	401,499	30,808,557
Derivative financial instruments	4,316,992	351,532	728	285	29,657	122,374	4,821,568
Long term borrowings	573,460	473,706	–	–	–	41,286	1,088,452
Other liabilities	–	–	–	–	–	11,903,567	11,903,567
Equity	–	–	–	4,000,000	–	18,077,523	22,077,523
Total liabilities and equity	100,610,959	35,459,357	10,235,975	6,309,157	34,018	31,076,164	183,725,630
On-balance sheet gap	23,019,661	(23,286,279)	(624,309)	(2,687,888)	22,372,481	(18,793,666)	–
Off-balance sheet gap	(1,850,870)	1,300,233	550,637	–	–	–	–
Total interest rate sensitivity gap	21,168,791	(21,986,046)	(73,672)	(2,687,888)	22,372,481	(18,793,666)	–
Cumulative interest rate sensitivity gap	21,168,791	(817,255)	(890,927)	(3,578,815)	18,793,666	–	–

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	387,996	3,976,969
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	–	–	–	–	–	12,101,161	12,101,161
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	511,014	3,854,327
Long term borrowings	1,172,789	6,617,456	–	–	1,115,864	–	8,906,109
Other liabilities	–	–	–	–	–	13,912,535	13,912,535
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	–	–

41 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 the 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, 2011 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	5,629,945	100,000	900,000	–	–	6,629,945
Deposits and balances due from banks	20,482,761	117,967	239,204	–	–	20,839,932
Trading Investments	15,755	–	–	–	–	15,755
Loans and advances, net	19,001,040	4,111,680	16,439,592	15,874,485	69,327,940	124,754,737
Derivative financial instruments	163,737	62,278	50,356	730,871	3,837,522	4,844,764
Investment securities	436,016	36,946	678,800	5,189,068	8,711,273	15,052,103
Investments in associates	–	–	–	–	81,817	81,817
Investment properties	–	–	–	–	396,912	396,912
Other assets	1,287,818	764,496	7,238,453	629,547	101,180	10,021,494
Property and equipment, net	–	–	–	–	964,518	964,518
Intangibles assets	–	–	–	20,328	103,325	123,653
Total assets	47,017,072	5,193,367	25,546,405	22,444,299	83,524,487	183,725,630
Liabilities and equity						
Due to Central Banks	48,100	–	–	–	–	48,100
Due to banks	837,000	325,061	2	127,082	1,801,241	3,090,386
Deposits from customers	77,166,861	20,540,155	9,562,044	2,364,435	253,982	109,887,477
Short and medium term borrowings	6,174,626	–	3,380,989	9,868,150	11,384,792	30,808,557
Derivative financial instruments	199,202	70,591	66,971	796,759	3,688,045	4,821,568
Long term borrowings	–	–	–	–	1,088,452	1,088,452
Other liabilities	2,805,385	458,536	7,223,799	632,162	783,685	11,903,567
Equity	–	–	–	4,000,000	18,077,523	22,077,523
Total liabilities and equity	87,231,174	21,394,343	20,233,805	17,788,588	37,077,720	183,725,630
Liquidity gap	(40,214,102)	(16,200,976)	5,312,600	4,655,711	46,446,767	–
Cumulative liquidity gap	(40,214,102)	(56,415,078)	(51,102,478)	(46,446,767)	–	–

41 Liquidity risk framework, measurement and monitoring continued

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	266,007	299,901	190,132	752,227	2,468,702	3,976,969
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	10,975,679	25,010	–	35,994	1,064,478	12,101,161
Property and equipment, net	–	–	–	–	1,070,321	1,070,321
Intangibles 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	455,513	273,572	248,344	687,878	2,189,020	3,854,327
Long term borrowings	–	–	–	–	8,906,109	8,906,109
Other liabilities	12,848,057	–	–	–	1,064,478	13,912,535
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)	–	–

42 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 on and off statement of financial position exposures denominated in foreign currencies:

	2011 Equivalent long/(short) AED'000	2010 Equivalent long/(short) AED'000
US $	**(5,881,198)**	(5,467,292)
Indian Rupee	**207,936**	112,970
Omani Riyal	**2,654**	2,325
Pound Sterling	**6,197**	2,546
Euro	**43,137**	(17,992)
Bahraini Dinar	**455**	2,274
Saudi Riyal	**(3,916,665)**	7,876
Japanese Yen	**(11,899)**	2,520
Australian Dollar	**(955)**	8,488
Swiss Franc	**(48,065)**	1,234
Malaysian Ringgit	**16,797**	1,206,740
Qatari Riyal	**204,544**	76,911
Others	**338**	6,490

42 Foreign exchange risk framework, measurement and monitoring continued

Currency concentrations as at December 31, 2011:

	AED AED'000	US$ AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Other AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	5,823,858	777,004	–	–	–	–	29,083	6,629,945
Deposits and balances due from banks	10,345,722	8,153,848	1,237,637	20,207	392,344	2,407	687,767	20,839,932
Trading securities	–	15,755	–	–	–	–	–	15,755
Loans and advances, net	107,599,141	14,305,494	9,530	–	21,067	–	2,819,505	124,754,737
Derivative financial instruments	1,189,378	3,567,621	3,363	–	761	–	83,641	4,844,764
Investment securities	605,574	13,736,475	486,792	–	–	–	223,262	15,052,103
Investments in associates	81,817	–	–	–	–	–	–	81,817
Investment properties	396,912	–	–	–	–	–	–	396,912
Other assets	854,275	8,792,860	92,171	336	2,260	14,424	265,168	10,021,494
Property and equipment, net	958,491	–	–	–	–	–	6,027	964,518
Intangibles assets	123,653	–	–	–	–	–	–	123,653
Total assets	127,978,821	49,349,057	1,829,493	20,543	416,432	16,831	4,114,453	183,725,630
Liabilities								
Due to Central Bank	34,260	–	–	–	–	–	13,840	48,100
Due to banks	1,808,098	1,262,171	8,386	–	74	–	11,657	3,090,386
Deposits from customers	80,521,798	20,123,965	1,580,244	19,754	419,192	13	7,222,511	109,887,477
Short and medium term borrowings	10,583,903	17,944,613	331,130	575,706	–	–	1,373,205	30,808,557
Derivative financial instruments	1,002,300	3,726,083	4,235	–	594	–	88,356	4,821,568
Long term borrowings	510,051	82,739	–	–	–	–	495,662	1,088,452
Other liabilities	3,114,441	8,521,259	25,711	827	–	–	241,329	11,903,567
Total liabilities	97,574,851	51,660,830	1,949,706	596,287	419,860	13	9,446,560	161,648,107
Net statement of financial position gap	30,403,970	(2,311,773)	(120,213)	(575,744)	(3,428)	16,818	(5,332,107)	22,077,523
Commitment and contingent liabilities								
Letters of credit	333,264	2,946,112	404,985	–	93,011	–	272,419	4,049,791
Guarantees	6,713,035	1,971,080	336,744	42	17,011	–	768,115	9,806,027
Commitments to extend credit – revocable	2,692,684	2,961,851	29,078	–	380	–	4,363	5,688,356
Commitments to extend credit – irrevocable	6,313,900	–	–	–	–	–	–	6,313,900
Others	–	55,095	–	–	–	–	–	55,095
	16,052,883	7,934,138	770,807	42	110,402	–	1,044,897	25,913,169
Commitments for future capital expenditure	274,887	–	–	–	–	–	–	274,887
Commitments to invest in investment securities	–	230,009	–	–	–	–	–	230,009
Total commitment and contingent liabilities	16,327,770	8,164,147	770,807	42	110,402	–	1,044,897	26,418,065

Currency concentrations as at December 31, 2010:

	AED AED'000	US$ AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Other AED'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	1,010,340	2,885,094	2,673	–	–	–	78,862	3,976,969
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	1,318,396	10,460,446	68,161	60,521	20,480	60,468	112,689	12,101,161
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	872,096	2,735,614	–	–	105	171,681	74,831	3,854,327
Long term borrowings	7,089,386	1,246,249	–	–	–	476,471	94,003	8,906,109
Other liabilities	3,869,696	9,621,979	71,613	26,307	28,729	126,262	167,949	13,912,535
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
Net statement of financial position gap	27,786,146	(3,293,501)	(748,187)	(1,213,514)	(3,502,590)	4,607,267	(4,062,273)	19,573,348
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
Others	–	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

43 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, 2011	(17,311)	34,990
December 31, 2010	(5,762)	31,031

Relative parallel instantaneous rate move shift for all tenors in USD (AED '000):

	+25%	–25%
December 31, 2011	19,731	(26,515)
December 31, 2010	13,336	(27,307)

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, 2011	+25	37,583	(46,305)
	–25	(37,583)	46,305
December 31, 2010	+25	53,838	(19,355)
	–25	(53,838)	19,355

43 Market risk framework, measurement and monitoring continued

Currency risk

The following table depicts the sensitivity of fair valuations in the Trading and Non 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

December 31, 2011		+10% AED '000	+5% AED '000	-5% AED '000	-10% AED '000
	AUD	(142)	(71)	87	173
	EUR	4,917	2,459	(2,459)	(4,918)
	GBP	20	10	(10)	(20)
	SAR	356,767	178,384	(218,024)	(436,048)
	JPY	827	414	(505)	(1,010)
	US$	(567,912)	(283,956)	283,956	567,912
December 31, 2010		+10% AED '000	+5% AED '000	-5% AED '000	-10% AED '000
	AUD	673	337	(337)	(673)
	EUR	(88)	(44)	88	44
	GBP	107	53	(53)	(107)
	SAR	1,767	883	(883)	(1,767)
	JPY	349	175	(349)	(175)
	US$	(555,062)	(277,531)	277,531	555,062

The currency risk price shock sensitive figures for December 31, 2010 presented in this consolidated financial statements are revised to include non trading foreign exchange position to be comparable with December 31, 2011 presentation.

44 Operational Risk Management

The Bank defines operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Operational risks can expose the ADCB (Bank) to potentially large losses as well. While the Bank cannot eliminate all operational risks, it has developed a comprehensive process of identifying, assessing, controlling/mitigating, monitoring and reporting operational risk.

The ultimate responsibility for Bank-wide operational risk profile, as well as compliance with laws and regulations, rests with them with the Board of Directors (BoD), even though this responsibility has been delegated to the senior management. Ongoing management of operational risk is coordinated by the Operational Risk Management Department (ORMD) and reviewed/controlled by the Management Executive Committee (MEC) and Management Risk & Credit Committee (MRCC) as applicable for policy purposes.

The Operational Risk Governance Framework is built on a number of elements which allow the Bank to effectively manage and measure its Operational Risk profile and to calculate the amount of Operational Risk capital that the Bank needs to hold to absorb potential losses.

The Internal Audit function provides further independent review of the Bank's operational risk management processes, systems and controls and reports to the Board and senior management.

45 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 199,731 thousand (December 31, 2010 – AED 106,443 thousand) held in India are subject to the exchange control regulations of India.

46 Trust activities

As at December 31, 2011, the net asset value of the funds under the management of the Bank amounted to AED 2,357,156 thousand (December 31, 2010 – AED 1,763,024 thousand).

The following funds are being managed by ADCB during 2011 and 2010:

- ADCB MSCI UAE Index Fund
- Al Nokhitha Fund
- ADCB Arabian Index Fund
- ADCB Macquarie Infrastructure Fund
- Zones Corp Infrastructure Fund

47 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. (*)	51%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advisory services.
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	2009	U.A.E.	Islamic banking.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C.	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Bank (UK) Limited(*)	100%	2008	United Kingdom	Process service agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Holding company for infrastructure investments.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)	100%	2006	U.A.E.	Investment in commercial projects.
ADCB Fund Management S.A.R.L.	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Feeder Fund	87%	2009	Luxembourg	Mutual Fund.
ADCB MSCI Arabian Markets Index Feeder Fund	99%	2009	Luxembourg	Mutual Fund.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of man	Trust activities.
ADCB Services FZ-L.L.C.	100%	2010	U.A.E.	Transaction processing and back office support for related parties.
ADCB Islamic Finance (Cayman) Limited	100%	2011	Cayman Islands	Islamic financing activities.

(*) These subsidiaries are dormant.

48 Capital adequacy and capital management

Capital management process

Capital Risk is the risk that the Bank has inadequate capital resources to: ensure 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.

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 (Basel 1) and quarterly (Basel II) 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 Standardized 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.

ADCB's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital supply

As per Basel II requirement, capital should comprise of the following:

Tier 1 capital – includes Paid-up share capital,published reserves (including post-tax retained earnings), share premium,legal reserves, general reserves,hybrid Tier 1 Instruments (with prior approval from Central Bank), minority interests in the equity of subsidiaries less than wholly-owned.

Profits of the current period are not allowable in the calculation of core capital, other than in exceptional circumstances at the discretion of the Central Bank. This would be determined in conjunction with reviews by a bank's external auditors as to their fairness.

Deductions must be made from Tier 1 core capital as per the the Basel/ Central Bank of UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, own shares held-at net book value taking account of any provisions made against the acquisition value, current year loss/retained losses, shortfall in provisions, other deductions to be determined by Central Bank of UAE.

Tier 2 capital – includes general provisions, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments, subordinated term loan.

Tier 3 capital – includes principal form of eligible capital to cover market risks consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). But, subject to prior approval from the CBUAE, banks may employ a third tier of capital (Tier 3), consisting of short term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

Securitised Assets

Exposures to securitised assets that are rated B+ and below (long term), below A3/P3 (short term), or are un-rated are deducted from the capital base.

Where deductions of investments are made pursuant to this part on scope of application, the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance and is subject to review by the ALCO as appropriate.

The ratio calculated in accordance with Basel II is as follows:

	Basel II	
	As at 2011 AED'000	As at 2010 AED'000
Tier 1 capital		
Share capital	5,595,597	4,810,000
Share premium	3,848,286	–
Statutory and legal reserves	3,309,351	2,704,179
General and contingency reserves	2,150,000	2,150,000
Employees' incentive plan shares, net	(104,595)	(36,677)
Foreign currency translation reserve	(27,521)	136,676
Retained earnings and other reserves	3,300,888	991,927
Non-controlling interests in equity of subsidiaries	5,517	8,561
Capital notes (Note 25)	4,000,000	4,000,000
Mandatory convertible securities	–	4,663,014
Less: Investment in associates (50%)	(40,909)	(2,679,100)
Less: Intangible assets	(123,653)	–
Less: Securitization exposures (due to rating migration)	(38,350)	(532,475)
	21,874,611	16,216,105
Tier 2 capital		
Collective impairment allowance on loans and advances	1,621,328	1,581,985
Cumulative changes in fair value	–	174,799
Tier 2 loan (Note 18)	6,617,456	6,617,456
Subordinated floating rate notes (Note 18)	938,231	1,172,789
Less: Investment in associates (50%)	(40,908)	(2,679,099)
Less: Securitization exposures (due to rating migration)	(38,350)	(532,475)
	9,097,757	6,335,455
Total regulatory capital	30,972,368	22,551,560
Risk-weighted assets:		
Credit risk	129,706,214	126,558,829
Market risk	2,103,768	3,464,224
Operational risk	5,805,137	5,405,406
Total risk-weighted assets	137,615,119	135,428,459
Total Capital adequacy ratio	22.51%	16.65%
Tier 1 ratio	15.90%	11.97%
Tier 2 ratio	6.61%	4.68%

The capital adequacy ratio was above the minimum requirement of 12% for December 31, 2011 (December 31, 2010 – 12%) stipulated by the Central Bank of U.A.E.

48 Capital adequacy and capital management continued

Tier 1 capital comprises the following resources:

- Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value. These instruments confer a share of ownership in the bank, and carry no obligations;
- Statutory & Legal 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 302,586 thousand has been transferred to statutory reserve during the year (December 31, 2010 – AED 38,100 thousand). 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 302,586 thousand has been transferred to legal reserve during the year (December 31, 2010 – AED 38,100 thousand). The legal reserve is not available for distribution.
- General reserve & Contingency Reserves:
  - General Reserves – 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 require 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.
  - Contingency reserve – The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.
- Employees' incentive plan shares – The Bank grants equity-settled share-based payments to employees. These shares acquired by ADCB for its employees are treated as treasury shares and are deducted from capital;
- Foreign Currency Translation Reserves – The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities and gains and losses on derivatives that hedge the Bank's net investment in foreign operations.
- Retained earnings, – which represent the cumulative profits not distributed to shareholders, and other eligible reserves;
- Non-controlling interest in equity of subsidiaries;
- Capital Notes – In February 2009, 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"). 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; and
- Mandatory convertible securities (equity component) – 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. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole.

Deductions from Tier 1 resources include intangible assets, 50% of investments in associates and securitization exposures.

Tier 2 capital comprises the following resources:

- Collective impairment on loans and advances;
- Cumulative changes in fair value – The cumulative changes in fair values includes the cumulative net change in the fair value of available for sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital; and
- Long term borrowings.

Deductions from Tier 2 resources include 50% of investments in associates and securitization exposures.

49 Legal proceeding

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if disposed unfavorably.