

BASE PROSPECTUS



ABU DHABI COMMERCIAL BANK P.J.S.C

(incorporated with limited liability in Abu Dhabi, United Arab Emirates)

and

ADCB FINANCE (CAYMAN) LIMITED

(incorporated with limited liability in the Cayman Islands)

in the case of Notes issued by ADCB FINANCE (CAYMAN) LIMITED

unconditionally and irrevocably guaranteed by

ABU DHABI COMMERCIAL BANK P.J.S.C.

(incorporated with limited liability in Abu Dhabi, United Arab Emirates)

U.S.\$7,500,000,000

Euro Medium Term Note Programme

Under this U.S.\$7,500,000,000 Euro Medium Term Note Programme (the **Programme**), Abu Dhabi Commercial Bank P.J.S.C. (ADCB) and ADCB Finance (Cayman) Limited (ADCB Finance Cayman, and together with ADCB each an **Issuer** and together the **Issuers**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The obligations of ADCB Finance Cayman in respect of Notes issued by it will be unconditionally and irrevocably guaranteed (the **Guarantee**) by ADCB (in such capacity, the **Guarantor**). References in this Base Prospectus to the **Obligors** are to ADCB and ADCB Finance Cayman and to the **relevant Obligors** shall, in the case of an issue of Notes, mean the relevant Issuer and, if the relevant Issuer is ADCB Finance Cayman, the Guarantor.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$7,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Issuer** shall, in the case of an issue of Notes, be to the Issuer issuing those Notes as specified in the applicable Final Terms and to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under **Terms and Conditions of the Notes**) of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Obligors and the relevant Dealer. The Issuers may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The relevant Obligors may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

HSBC

Dealers

Banc of America Securities Limited

Citi

Deutsche Bank

HSBC

BNP PARIBAS

Daiwa Securities SMBC Europe

Dresdner Kleinwort

JPMorgan

Standard Chartered Bank

The date of this Base Prospectus is 17 June, 2008.

The Obligors accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Obligors (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with any amendments or supplements hereto and with any other documents incorporated herein by reference and, in relation to any Tranche of Notes, should be read in conjunction with the applicable Final Terms.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Obligors in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Obligors in connection with the Programme.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

No person is or has been authorised by the Obligors to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Obligors or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Obligors or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Obligors. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Obligors or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Obligors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Obligors since the date of this Base Prospectus. The Dealers expressly do not undertake to review the financial condition or affairs of the Obligors during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Obligors and the Dealers do not represent that this

Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Obligors or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan and the United Arab Emirates, see "*Subscription and Sale*".

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the Stabilising Manager) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information herein has been derived from (i) the audited consolidated financial statements of ADCB for the financial years ended 31 December 2007 and 31 December 2006 and (ii) the unaudited reviewed consolidated financial statements of ADCB for the three months ended 31 March 2008 (together, the **Financial Statements**).

The Financial Statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Certain Conventions

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be arithmetic aggregation of the figures which precede them.

All references in this Prospectus to *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars being the legal currency for the time being of the United States of America and all references to *dirham* and *AED* refer to United Arab Emirates dirham being the legal currency for the time being of the United Arab Emirates. In addition, references to *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

This dirham has been pegged to the U.S. dollar since 22 November 1980. The mid point between the official buying and selling rates for the dirham is at a fixed rate of AED 3.6725 = U.S.\$1.00.

FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning ADCB's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "Risk Factors" and "Business Description" and other sections of this Base Prospectus. ADCB has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although ADCB believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those which ADCB has identified in this Base Prospectus, or if any of ADCB's underlying assumptions prove to be incomplete or inaccurate, ADCB's actual results of operation may vary from those expected, estimated or predicted.

These forward looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, ADCB expressly disclaims any obligations or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

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RISK FACTORS

The Obligors believe that the following factors may affect their ability to fulfil their obligations under Notes issued under the Programme or the Guarantee, as the case may be. Most of these factors are contingencies which may or may not occur and the Obligors are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Obligors believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Obligors to pay interest, principal or other amounts on or in connection with any Notes or to pay any amount in respect of the Guarantee, as the case may be, may occur for other reasons which may not be considered significant risks by the Obligors based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Factors that may affect ADCB Finance Cayman's ability to fulfil its obligations under Notes issued under the Programme

ADCB Finance Cayman has no operating history and no material assets

At the date of this Base Prospectus, ADCB Finance Cayman is a newly-established company with limited liability incorporated under the laws of the Cayman Islands on 12 May, 2008 and has no operating history. ADCB Finance Cayman will not engage in any business activity other than the issuance of Notes under this Programme and other borrowing programmes established from time to time by ADCB, the issuance of shares in its capital and other activities incidental or related to the foregoing. ADCB Finance Cayman is not expected to have any income except payments received from ADCB, which will be the only material sources of funds available to meet the claims of the Noteholders.

As ADCB Finance Cayman is a Cayman Islands company, it may not be possible for Noteholders to effect service of process outside of the Cayman Islands.

Factors that may affect ADCB's ability to, in its capacity as Issuer, fulfil its obligations under Notes issued under the Programme and to, in its capacity as Guarantor, fulfil its obligations under the Guarantee

Principal shareholder

The Government of Abu Dhabi indirectly holds approximately 64.8 per cent. of ADCB's share capital. By virtue of such shareholding, the Government of Abu Dhabi has the ability to influence ADCB's business significantly through its ability to control corporate actions that require shareholder approval. If circumstances were to arise where the interests of the Government of Abu Dhabi conflicted with the interests of the Noteholders, the Noteholders may be disadvantaged by any such conflict.

Risks relating to ADCB's business

In the course of its business activities, ADCB is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and legal and operational risk. Whilst ADCB believes it has implemented the appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks could be greater than anticipated which could result in adverse effects on ADCB's financial condition and reputation.

Credit Risk

Risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in a wide range of ADCB's business activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers and counterparties of ADCB, or from a general deterioration in local or global economic conditions, or from systemic risks within the financial systems, which could affect the recoverability and value of ADCB's assets and require an increase in ADCB's provisions for the impairment of loans, securities and other credit exposures. A description of ADCB's exposure to credit risk is included on pages 76 to 78.

Market risk

The most significant market risks to which ADCB is exposed are interest rate, foreign exchange, and bond, equity and commodity price risks associated with its trading, investment and asset and liability management activities. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between ADCB's lending and investment activities and its borrowing costs, and the values of assets that are sensitive to interest rate and spread changes. Changes in foreign exchange rates may affect the values of assets and liabilities denominated in foreign currencies and the income from foreign exchange dealing. Changes in bond, equity and commodity prices may affect the values of ADCB's investment and trading portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on ADCB's financial performance and business operations. A description of ADCB's exposure to market risk is included on pages 78 to 79.

Liquidity Risk

Liquidity risk could arise from the inability of ADCB to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on ADCB's ability to meet its obligations when they fall due. A description of ADCB's exposure to liquidity risk is included on pages 79 to 80.

Legal and operational risk

Legal and operational risk and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with local regulatory requirements and conduct of business rules, system and equipment failures, natural disasters or the failure of external systems (for example, those of ADCB's counterparties or vendors). Although ADCB has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to entirely eliminate each of the legal and operational risks. A description of ADCB's exposure to legal and operational risk is included on page 81.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either of the Issuers or ADCB and its subsidiaries taken as a whole (the **ADCB Group**) will be unable to comply with its obligations as a company with securities admitted to the Official List.

Concentration of lending base

As at 31 December, 2007, ADCB's ten largest borrowers accounted for 27.3 per cent., of its net loan portfolio. Any default by one or more of these borrowers could have an adverse effect on ADCB's business, financial condition, results of operations or prospects.

Dependence on key personnel

Revenues of ADCB will depend, in part, on ADCB's ability to continue to attract, retain and motivate qualified and skilled personnel. ADCB relies on its senior management for the implementation of its

strategy and its day-to-day operations. There is intense competition in the UAE for skilled personnel, especially at the senior management level, due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If ADCB were unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have an adverse effect on the operations of ADCB. The loss of any member of the senior management team may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could adversely affect ADCB's business, results of operations, financial condition and prospects and ability to make payments due under the Notes.

Risk factors relating to the UAE and the Middle East

Political, economic and related considerations

The UAE has enjoyed significant economic growth and relative political stability (see “*Overview of the United Arab Emirates*”). There can be no assurance that such growth or stability will continue. Moreover, while the UAE government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance will be sustained. ADCB may also be adversely affected generally by political and economic developments in or affecting the UAE.

No assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies or new legal interpretations of existing regulations, relating to, or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on ADCB's business, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Notes.

ADCB's business may be affected if there are geo-political events or circumstances that prevent ADCB from delivering its services. It is not possible to predict the occurrence of such events or circumstances or the impact of such occurrences and no assurance can be given that ADCB would be able to sustain its current profit levels if such events or circumstances were to occur.

ADCB's results of operations are affected by economic and political conditions in the countries in which it operates and any sustained deterioration in the economies of these countries or major political upheaval could have a material adverse affect on ADCB's business and results of operations. Investors should also note that ADCB's business and financial performance could be adversely affected by political, economic and related developments both within and outside the countries in which ADCB operates, because of the inter-relationships within global financial markets.

Impact of regulatory changes

ADCB is subject to the laws, regulations, administrative actions and policies of the UAE and each other jurisdiction in which it operates. These regulations may limit ADCB's activities and changes in supervision and regulation, in particular in the UAE, could materially affect ADCB's business (such as pursuant to Basel II), the products or services offered, the value of its assets and its financial condition. Although ADCB works closely with its regulators and continuously monitors the situation, future changes in regulatory, fiscal or other policies cannot be predicted and are beyond the control of ADCB. A description of the legal and regulatory environment applicable to banks generally in the UAE is set out below under “*The United Arab Emirates Banking Sector and Regulations.*”

Enforcing foreign judgments in the UAE

Under the Conditions of the Notes, any dispute arising from the Notes may be referred to arbitration in Paris under the rules of arbitration of the London Court of International Arbitration.

The Convention entered into force in the UAE on 19 November, 2006. However, the UAE and France signed a bilateral convention for the mutual enforcement of arbitration awards in 1991, which was

ratified by the UAE in 1992. The provisions of the New York Convention are stated not to affect the validity of any bilateral enforcement convention, nor to deprive a party of any right they may have under such a convention. The UAE courts should therefore give precedence to the provisions of the bilateral enforcement treaty over the provisions of the New York Convention, but this has yet to be tested in the UAE. Any arbitration award rendered in Paris should therefore be enforceable in the UAE in accordance with the terms of the bilateral convention. The bilateral enforcement treaty between the UAE and France contains broadly similar conditions for enforcement to those under the New York Convention, i.e. UAE courts should recognise and enforce French arbitration awards if the other requirements of the bilateral convention between the UAE and France are met.

Under the Conditions of the Notes, any dispute may also be referred to the courts in England (who shall have exclusive jurisdiction) to settle any dispute arising from the Notes. Under current UAE federal law, the courts in the UAE are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Notes.

Judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, court decisions in the UAE are generally not recorded. These factors create greater judicial uncertainty.

Foreign exchange movements may adversely affect Abu Dhabi Commercial Bank P.J.S.C.'s profitability

ADCB maintains its accounts, and reports its results, in AED. The UAE dirham has been 'pegged' at a fixed exchange rate to the U.S. dollar since 22 November, 1980. ADCB has among its portfolio U.S. dollar-denominated assets and liabilities and any alteration to, or abolition of, this foreign exchange 'peg' will expose ADCB to U.S. dollar foreign exchange movements against the AED.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured,

appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuers

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

Each Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuers may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

Each Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar or related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since that Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The relevant Issuer's obligations under Subordinated Notes are subordinated and the Guarantor's obligations under the Guarantee in respect of Subordinated Notes issued by ADCB Finance Cayman are subordinated

Each Issuer's obligations under Subordinated Notes issued by it will be unsecured and subordinated and, upon the occurrence of any winding up proceedings with respect to that Issuer, will rank junior in priority of payment to obligations owed to Senior Creditors of that Issuer. **Senior Creditors** means all creditors of the relevant Issuer (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the holders of Subordinated Notes. The Guarantor's obligations under the Guarantee in respect of Subordinated Notes issued by ADCB Finance Cayman will be unsecured and subordinated and, upon the occurrence of any winding up proceedings with respect to the Guarantor, will rank junior in priority of payment to obligations owed to Senior Creditors of the Guarantor. **Senior Creditors** means all

creditors of the Guarantor (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims under the Guarantee. In addition, Condition 2.3 and Condition 2.4 require each holder of Subordinated Notes unconditionally and irrevocably to waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of its Subordinated Notes.

Although Subordinated Notes pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the relevant Obligors become insolvent.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payments made by a Paying Agent following the implementation of the Directive, the relevant Issuer will be required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding

(should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of ADCB The Obligors cannot predict which of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DESCRIPTION OF THE PROGRAMME

This description must be read as an introduction to this Base Prospectus. Any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference, by any investor. This description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this description.

Issuers:	ADCB Finance (Cayman) Limited Abu Dhabi Commercial Bank P.J.S.C.
Guarantor in respect of Notes issued by ADCB Finance (Cayman) Limited:	Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi Commercial Bank P.J.S.C.:	<p>ADCB is a public joint stock company incorporated in the Emirate of Abu Dhabi, United Arab Emirates (the UAE).</p> <p>Since its incorporation in May 1985, the Government of Abu Dhabi has always indirectly held a controlling interest of at least 60 per cent. of the share capital in ADCB. The Government of Abu Dhabi currently indirectly holds 64.8 per cent. of ADCB’s share capital.</p> <p>ADCB has a network of 42 branches in the United Arab Emirates and 2 branches in India and employed 2,157 members of staff as at 31 March, 2008. ADCB’s total assets as at 31 March, 2008 were approximately AED 113.99 billion and its net profit for the period ended on that date was AED 517 million. ADCB is listed on the Abu Dhabi Securities Exchange and had a market capitalisation of approximately AED 25.88 billion (U.S.\$7.04 billion) as at 31 March, 2008.</p>
Description:	Euro Medium Term Note Programme.
Arranger:	HSBC Bank plc.
Dealers:	Banc of America Securities Limited BNP Paribas Citigroup Global Markets Limited Daiwa Securities SMBC Europe Limited Deutsche Bank AG, London Branch Dresdner Bank Aktiengesellschaft HSBC Bank plc J. P. Morgan Securities Ltd. Standard Chartered Bank and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations,

restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*").

Issuing and Principal Paying Agent:	HSBC Bank plc.
Programme Size:	Up to U.S.\$7,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. ADCB may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Obligors and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	The Notes will have such maturities as may be agreed between the relevant Obligors and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Obligors or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Obligors and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as

may be agreed between the relevant Obligors and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the relevant Obligors and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the relevant Obligors and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Obligors and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by relevant Obligors and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Obligors and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Obligors and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if

applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Obligors and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the relevant Obligors and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions - Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes and under the Guarantee will be made without deduction for or on account of withholding taxes imposed by any Relevant Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the relevant Obligors will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 3.

Cross Default:

The terms of the Senior Notes will contain a cross default provision as further described in Condition 10.

Status of the Senior Notes:

The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by

	law) equally with all other unsecured obligations (other than subordinated obligations, if any) of that Issuer, from time to time outstanding.
Status of the Guarantee in respect of Senior Notes issued by ADCB Finance Cayman:	The obligations of the Guarantor under the Guarantee in respect of Senior Notes issued by ADCB Finance Cayman will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
Status and Subordination of the Subordinated Notes:	The Subordinated Notes are direct, conditional (as described in Condition 2.3) and unsecured obligations of the relevant Issuer. Payments in respect of the Subordinated Notes will be subordinated as described in Condition 2.3.
Status of the Guarantee in respect of Subordinated Notes issued by ADCB Finance Cayman:	The Guarantee in respect of the Subordinated Notes issued by ADCB Finance Cayman is a direct, conditional (as described in Condition 2.4) and unsecured obligation of the Guarantor. Payments in respect of the Guarantee in respect of the Subordinated Notes issued by ADCB Finance Cayman will be subordinated as described in Condition 2.4.
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms.
Approval, Listing and Admission to trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the relevant Obligors and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Governing Law:	The Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan and the United Arab Emirates and such other restrictions as may be required in connection with

the offering and sale of a particular Tranche of Notes (see “*Subscription and Sale*”).

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing or (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the relevant Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (each a **Deed of Covenant**) dated 17 June, 2008 and made by each Issuer.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

[ADCB FINANCE (CAYMAN) LIMITED][ABU DHABI COMMERCIAL BANK P.J.S.C.]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[unconditionally and irrevocably guaranteed by
ABU DHABI COMMERCIAL BANK P.J.S.C.]
under the U.S.\$7,500,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 17 June, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at Abu Dhabi Commercial Bank P.J.S.C., P.O. Box 939, Abu Dhabi, United Arab Emirates and copies may be obtained from Abu Dhabi Commercial Bank P.J.S.C., P.O. Box 939, Abu Dhabi, United Arab Emirates.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 17 June, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 17 June, 2008 and [original date]. Copies of such Base Prospectuses are available for viewing at Abu Dhabi Commercial Bank P.J.S.C., P.O. Box 939, Abu Dhabi, United Arab Emirates and copies may be obtained from Abu Dhabi Commercial Bank P.J.S.C., P.O. Box 939, Abu Dhabi, United Arab Emirates.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1. (a) Issuer: [Abu Dhabi Commercial Bank P.J.S.C.][ADCB Finance (Cayman) Limited]

- (b) Guarantor: [N/A][Abu Dhabi Commercial Bank P.J.S.C.]
2. (a) Series Number: []
- (b) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount of Notes admitted to trading:
- (a) Series: []
- (b) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(if applicable)*]
6. (a) Specified Denominations: []
- (Note – where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed:*
- “€50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000. No Notes in definitive form will be issued with a denomination above €99,000.”)*
- (N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)*
- (b) Calculation Amount []
(Applicable to Notes in definitive form.)
(If only one Specified Denomination, insert the Specified Denomination.
- If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: []
- (b) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate – specify date/

Floating rate – Interest Payment Date falling in or nearest to [*specify month*]

9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospective Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]

12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]

13. (a) Status of the Notes: [Senior][Subordinated]
(b) Status of the Guarantee: [Senior][Subordinated]
(c) [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [] [and []], respectively]]

(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)

14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
(If payable other than annually, consider amending Condition 5)

(b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]

(N.B. This will need to be amended in the case of long or short coupons)

- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form.)
- (d) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Notes in definitive form.)
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *[specify other]*]
- (f) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/*Give details*]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/
[specify other]]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- (i) Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)

- (ii) Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- (iii) Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- (i) Floating Rate Option: []
- (ii) Designated Maturity: []
- (iii) Reset Date: []
- (h) Margin(s): [+/-] [] per cent. per annum
- (i) Minimum Rate of Interest: [] per cent. per annum
- (j) Maximum Rate of Interest: [] per cent. per annum
- (k) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] 30E/360 (ISDA) Other]
(See Condition 5 for alternatives)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Any other formula/basis of determining amount payable: []
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5(c) and 7.10 apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)

18. Index Linked Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (e) Specified Period(s)/Specified Interest Payment Dates: []
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
- (g) Additional Business Centre(s): []
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: []
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]

- (b) Party, if any, responsible for calculating the interest due (if not the Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

- 20. Issuer Call: *[Applicable/Not Applicable]*
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): *[[] per Calculation Amount/specify other/see Appendix]*
 - (c) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []
 - (d) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

- 21. Investor Put: *[Applicable/Not Applicable]*
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): *[[] per Calculation Amount/specify other/see Appendix]*
 - (c) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and

custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

22. Final Redemption Amount: [[] per Calculation Amount/specify other/see Appendix]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): [[] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "€50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/*give details*]
- (b) Instalment Date(s): [Not Applicable/*give details*]
29. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Other final terms: [Not Applicable/*give details*]
(When adding any other final terms consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

31. (a) If syndicated, names of Managers: [Not Applicable/*give names*]
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)
- (b) Date of Subscription Agreement: []
(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies).
- (c) Stabilising Manager (if any): [Not Applicable/*give name*]
32. If non-syndicated, name of relevant Dealer: [Not Applicable/*give names*]
33. U.S. Selling Restrictions: [TEFRA D/TEFRA C/TEFRA not applicable]
34. Additional selling restrictions: [Not Applicable/*give details*]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market) and, if relevant listing on an official list (for example, the Official List of the UK Listing Authority)*] of the Notes described herein pursuant to the U.S.\$7,500,000,000 Euro Medium Term Note Programme of Abu Dhabi Commercial Bank P.J.S.C. and ADCB Finance (Cayman) Limited.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components*] has been extracted from [*specify source*]. The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as they are aware and are able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By:
Duly authorised

By:
Duly authorised]

PART B – OTHER INFORMATION

1. LISTING A

- (i) Listing and Admission to trading [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [].]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings:

The Notes to be issued have been rated:

[S & P: []]
[Moody's: []]
[[Other]: []]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the Offer: []
- (ii) Estimated net proceeds: []
- (iii) Estimated total expenses: []

(N.B.: Delete this paragraph 4 unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for

the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.])

5. YIELD (Fixed Rate Notes only)

Indication of yield:

[]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index Linked Notes only)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

7. PERFORMANCE OF RATE[S] OF EXCHANGE (Dual Currency Notes only)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

8. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which (save for the text in italics) will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and, if the Issuer is ADCB Finance (Cayman) Limited, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by the Issuer named in the applicable Final Terms (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 17 June, 2008 and made between the Issuer, Abu Dhabi Commercial Bank P.J.S.C. (in its capacity as guarantor, the **Guarantor**), HSBC Bank plc as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

If the Issuer is ADCB Finance (Cayman) Limited, the payment of all amounts in respect of this Note has been guaranteed by the Guarantor pursuant to a guarantee (the **Guarantee**) dated 17 June, 2008 and executed by the Guarantor. The original of the Guarantee is held by the Agent on behalf of the Noteholders, the Receiptholders and the Couponholders at its specified office. If the Issuer is Abu Dhabi Commercial Bank P.J.S.C., references to the Guarantor and the Guarantee are not applicable.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below.

Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 17 June, 2008 and made by each Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, the Guarantee and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the specified office of each of the Paying Agents and copies may be obtained from the registered office of the Issuer, P.O. Box 939, Salam Street, Abu Dhabi, the United Arab Emirates. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Guarantee, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note is a Senior Note or a Subordinated Note depending upon the status specified in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Guarantor and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. STATUS

2.1. Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

2.2. Status of the Guarantee in respect of the Senior Notes

The obligations of the Guarantor under the Guarantee in respect of the Senior Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

2.3. Status of the Subordinated Notes

The Subordinated Notes and any relative Receipts and Coupons are direct, conditional as described below and unsecured obligations of the Issuer and rank *pari passu* among themselves.

The payment obligations of the Issuer in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Issuer in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Issuer. The rights of the holders of Subordinated Notes against the Issuer are subordinated in right of payment to the claims of all Senior Creditors of the Issuer and accordingly payments in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) by the Issuer are conditional upon both the Issuer and the Guarantor being solvent at the time of such payment and no

payment shall be payable by the Issuer in respect of the Subordinated Notes except to the extent that the Issuer could make such payment and any other payment required to be made to a creditor in respect of indebtedness which ranks or is expressed to rank *pari passu* with the Subordinated Notes and still be solvent immediately thereafter. For this purpose the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its assets exceed its liabilities, and, in this Condition 2.3, **Senior Creditors** shall mean creditors of the Issuer (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the holders of the Subordinated Notes.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of setoff, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations under the Subordinated Notes.

2.4. Status of the Guarantee in respect of the Subordinated Notes

The Guarantee is a direct, conditional as described below and unsecured obligation of the Guarantor.

The payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes will be subordinated to all unsubordinated payment obligations of the Guarantor in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Guarantor which do not rank or are not expressed by their terms to rank junior to the payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes and in priority to all claims of shareholders of the Guarantor. The rights of the holders of Subordinated Notes against the Guarantor under the Guarantee in respect of the Subordinated Notes are subordinated in right of payment to the claims of all Senior Creditors of the Guarantor and accordingly payments in respect of the Guarantee in respect of the Subordinated Notes by the Guarantor are conditional upon the Guarantor being solvent at the time of such payment and no payment shall be payable by the Guarantor under that Guarantee except to the extent that the Guarantor could make such payment and any other payment required to be made to a creditor in respect of indebtedness which ranks or is expressed to rank *pari passu* with the Guarantee in respect of the Subordinated Notes and still be solvent immediately thereafter. For this purpose the Guarantor shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its assets exceed its liabilities, and, in this Condition 2.4, the **Senior Creditors** shall mean creditors of the Guarantor (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the holders under the Subordinated Guarantee.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of setoff, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Guarantee in respect of the Subordinated Notes. No collateral is or will be given for the payment obligations under the Guarantee in respect of the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Guarantor shall not secure the payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes.

3. NEGATIVE PLEDGE

This Condition 3 only applies to Senior Notes.

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness or guarantee of Indebtedness, other than a Permitted Security Interest, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by Extraordinary Resolution (as defined in the Agency Agreement).

In these Conditions:

guarantee means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

Indebtedness means any indebtedness which is in the form of, or represented or evidenced by, certificates, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

Non-recourse Project Financing means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets of the project, (ii) the Persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the financing;

Permitted Security Interest means:

- (i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution;
- (ii) any Security Interest arising by operation of law, provided that such Security Interest is discharged within 30 days of arising; and
- (iii) any Security Interest granted to secure a Non-recourse Project Financing or to secure any Indebtedness incurred in connection with a Securitisation.

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Securitisation means any securitisation (Islamic or otherwise) of existing or future assets and/or revenues, provided that (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation, (ii) each Person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues securitised as the principal source

of repayment for the moneys advanced or payment of any other liability and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the securitisation;

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

Subsidiary means in relation to any Person (the **first person**) at any particular time, any other Person (the **second person**):

- (i) whose affairs and policies the first Person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

The Guarantor has agreed in the Guarantee in respect of the Senior Notes that, so long as any Senior Note remains outstanding (as defined in the Agency Agreement), the Guarantor shall not, and the Guarantor shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness or Guarantee of Indebtedness, other than a Permitted Security Interest, without (a) at the same time or prior thereto securing the Guarantee in respect of the Senior Notes equally and rateably therewith or (b) providing such other security for the Guarantee in respect of the Senior Notes as may be approved by Extraordinary Resolution (as defined in the Agency Agreement). Capitalised terms used in this paragraph are defined in the Guarantee in a manner which is substantially similar to the definitions set out above.

4. Redenomination

4.1. Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant

holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and

- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

4.2. Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty establishing the European Community, as amended.

5. INTEREST

5.1. Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for

the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2. Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an **Interest Period** means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (I) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

Where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

- (vii) If “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the second London Business Day after the Interest Determination Date) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Guarantor, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3. Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

5.4. Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

5.5. Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1. Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2. Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph.

Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

6.3. Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

6.4. General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer and the Guarantor have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

6.5. Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) the relevant place of presentation;
 - (ii) London;
 - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

6.6. Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

7.1. Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

7.2. Redemption for tax reasons

The Notes may (subject, in the case of Subordinated Notes, to the prior approval of the Central Bank of the United Arab Emirates (the **Regulator**, which expression shall include any successor thereto as the relevant regulator of banks in the United Arab Emirates) where required) be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

- (b) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

7.3. Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4. Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be

exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

7.5. Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

^y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for

redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

7.6. Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

7.7. Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

7.8. Purchases

The Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor may, (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to any Paying Agent for cancellation.

7.9. Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

7.10. Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer and all payments under the Guarantee by the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be,

the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment in a Relevant Tax Jurisdiction; or
- (b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Relevant Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14; and
- (ii) **Relevant Tax Jurisdiction** means, if the Issuer is ADCB Finance (Cayman) Limited, the Cayman Islands (in the case of any payment by the Issuer) or the United Arab Emirates or any Emirate therein (in the case of any payment by the Guarantor) or, in either case, any political subdivision or any authority thereof or therein having power to tax and, if the Issuer is Abu Dhabi Commercial Bank P.J.S.C., the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

10.1. Event of Default for Senior Notes

This Condition 10.1 only applies to Senior Notes.

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) **Non Payment:** default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or
- (b) **Breach of Obligations:** the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Conditions or the Guarantee and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer or the Guarantor of notice requiring the same to be remedied; or
- (c) **Cross Default:** (i) any Relevant Indebtedness of the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described) or (iii) the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Relevant Indebtedness, provided that the events mentioned in this paragraph (c) shall not constitute an Event of Default unless the aggregate amount of all such Relevant Indebtedness, either alone or when aggregated with all other indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than U.S.\$15,000,000 (or its equivalent in any other currency or currencies); or
- (d) **Unsatisfied Judgments:** one or more final non-appealable judgments or orders for the payment of any sum which amount shall not be less than U.S.\$15,000,000 is rendered against the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries and continues unsatisfied and unstayed for a period of 30 days after the service of any Noteholder on the Issuer or the Guarantor of notice requiring the same to be remedied/paid; or
- (e) **Liquidation and Other Events:**
 - (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save in connection with a Permitted Reorganisation; or
 - (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or threatens to cease to carry on the whole or a Substantial Part of its business, save in connection with a Permitted Reorganisation, or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
 - (iii) (A) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other

receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days; or

- (iv) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (v) any event occurs which under the laws of the Cayman Islands or the United Arab Emirates or any Emirate therein or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iv) above;
- (f) **Illegality:** at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its obligations under or in respect of the Notes or the Guarantee or any of the material obligations of the Issuer or the Guarantor thereunder are not or cease to be legal, valid, binding or enforceable; or
- (g) **Nationalisation etc.:** by or under the authority of any government, (i) the management of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is wholly or partially displaced or the authority of the Issuer, the Guarantor or any Principal Subsidiary in the conduct of its business is wholly or partially curtailed or (ii) all or a majority of the issued share capital of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or
- (h) **Change of Control:** the Government of Abu Dhabi at any time ceases to directly or indirectly own not less than 50 per cent. of the issued share capital of the Guarantor; or
- (i) **Cessation of Guarantee:** the Guarantee ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect,

then any holder of a Note may, by written notice to the Issuer and the Guarantor at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition:

Principal Subsidiary means a Subsidiary of the Guarantor the book value of the assets of which exceeds ten per cent. of the book value of the consolidated assets of the Guarantor and

its Subsidiaries, taken as a whole, or the revenues of which exceed ten per cent. of the consolidated revenues of the Guarantor and its Subsidiaries, taken as a whole and, for these purposes:

- (i) the book value of the assets and the revenues of each Subsidiary which is, or might be, a Principal Subsidiary shall be determined by reference to its then most recently audited annual financial statements (consolidated if the same are prepared) or, if none, its then most recent annual management accounts; and
- (ii) the book value of the consolidated assets and the consolidated revenues of the Guarantor and its Subsidiaries, taken as a whole, shall be determined by reference to the Guarantor's then most recently audited consolidated annual financial statements;

all as more fully set out in the Agency Agreement. A report by two Directors of the Guarantor that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or through any particular period a Principal Subsidiary shall (in the absence of manifest or proven error) be conclusive and binding on the parties;

Permitted Reorganisation means:

- (A) any disposal by any Subsidiary of the Guarantor of the whole or a substantial part of its business, undertaking or assets to the Guarantor or any Relevant Subsidiary of the Guarantor;
- (B) any amalgamation, consolidation or merger of a Subsidiary with any other Subsidiary or any other Relevant Subsidiary of the Guarantor; or
- (C) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution;

Subsidiary means in relation to any Person (the first Person) at any particular time, any other Person (the second Person) whose affairs and policies the first Person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise.

Relevant Subsidiary means any Subsidiary which is, directly or indirectly, wholly owned by the Guarantor or which is so wholly-owned except for any nominal third party shareholding required by law;

Substantial Part means 15 per cent. of the assets or revenues, as the case may be, of the Guarantor and its consolidated Subsidiaries, taken as a whole; and

Relevant Indebtedness means, any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing.

10.2. Events of Default for Subordinated Notes

This Condition 10.2 only applies to Subordinated Notes.

(a) Non Payment

If default is made in the payment of any principal or interest due under the Notes or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest, any Noteholder may institute proceedings in the United Arab Emirates or any Emirate therein (but not elsewhere) for the dissolution and liquidation of the Issuer.

(b) Liquidation and other events

If any one or more of the following events shall occur and be continuing:

- (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor, save in connection with a Permitted Reorganisation; or
- (ii) the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, save in connection with a Permitted Reorganisation, or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (iii) (A) proceedings are initiated against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer or as the case may be, the Guarantor), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or the Guarantor, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of the Issuer or the Guarantor and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days; or
- (iv) the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (v) any event occurs which under the laws of the Cayman Islands or the United Arab Emirates or any Emirate therein or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iv) above,

then the holder of any Note may give written notice to the Issuer and the Guarantor at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, that such Note is due and payable, whereupon the same shall, subject to Condition 2, become forthwith

due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

(c) Breach of Obligations

To the extent permitted by applicable law and by these Conditions, a Noteholder may at its discretion institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer or the Guarantor under the Notes or the Guarantee, the Receipts or the Coupons, but the institution of such proceedings shall not have the effect that the Issuer or, as the case may be, the Guarantor shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

(d) Other Remedies

No remedy against the Issuer or the Guarantor, other than the institution of the proceedings referred to in paragraph (a) or (c) above and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor, shall be available to the Noteholders, the Receiptholders or the Couponholders whether for the recovering of amounts owing in respect of the Notes, the Receipts or the Coupons or in respect of any breach by the Issuer or the Guarantor of any other obligation, condition or provision binding on it under the Notes, the Receipts or the Coupons.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or the Guarantor and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the

time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes, the Receipts or the Coupons or amending the Guarantee), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1. Governing law

The Agency Agreement, the Guarantee, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

18.2 Arbitration

Subject to Condition 18.3, any dispute arising out of or connected with the Notes, the Receipts and/or the Coupons (including any dispute regarding the existence, validity or termination of the Notes, the Receipts and/or the Coupons) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (**LCIA**) (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

- (a) the place of arbitration shall be Paris;
- (b) there shall be three arbitrators; and
- (c) the language of the arbitration shall be English.

18.3 Court of law

Notwithstanding Condition 18.2 above, any Noteholder, Receiptholder or Couponholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

- (a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
- (b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If any Noteholder, Receiptholder or Couponholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 18.4 and any arbitration commenced under Condition 18.2 in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

18.4 Submission to jurisdiction

In the event that a notice pursuant to Condition 18.3 is issued, the following provisions shall apply:

- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute;
- (b) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (c) this Condition 18.4 is for the benefit of the Noteholders, the Receiptholders and the Couponholders only. As a result, and notwithstanding paragraph (a) above, any Noteholder, Receiptholder or Couponholder may take proceedings relating to a Dispute (**Proceedings**) in any other court with jurisdiction. To the extent allowed by law, any Noteholder, Receiptholder or Couponholder may take concurrent Proceedings in any number of jurisdictions.

18.5. Appointment of Process Agent

The Issuer appoints RB Secretariat Limited at its registered office at 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7EE as its agent for service of process, and undertakes that, in the event of RB Secretariat Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.6. Waiver of immunity

Abu Dhabi Commercial Bank P.J.S.C. hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award made or given in connection with any Proceedings or Disputes.

18.7. Other documents

The Issuer and, where applicable, the Guarantor have in the Agency Agreement, the Guarantee and the Deed of Covenant made provision for arbitration, submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

In the case of Notes issued by ADCB Finance Cayman, the net proceeds from each issue of Notes will be lent by ADCB Finance Cayman to ADCB and, along with the net proceeds resulting from the Notes issued by ADCB, will be applied by ADCB for its general corporate purposes, which include making a profit. In each case, if, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF ADCB FINANCE CAYMAN

ADCB Finance Cayman was incorporated in the Cayman Islands as a limited liability company on 12 May 2008 in accordance with laws of the Cayman Islands, with registration number WK-210317. Its registered office is c/o Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

The authorised share capital of ADCB Finance Cayman is U.S.\$50,000 divided into 5,000,000 ordinary shares with a par value of U.S.\$0.01 each. The issued share capital of the Issuer is 100 shares, all of which are fully paid and held by ADCB.

ADCB Finance Cayman has no subsidiaries.

The board of directors of ADCB Finance Cayman and their principal occupations are as follows:

<u>Director</u>	<u>Principal Occupation</u>
Eirvin Knox	CEO of ADCB
Jasim Al Darmaki	Head of Government Banking at ADCB
Walter Pompliano	Acting Head of Treasury & Investment at ADCB

The business address of each member of the board of directors is P.O. Box 939, Abu Dhabi, UAE.

No member of the board of directors has any actual or potential conflict of interest between his duties to ADCB Finance Cayman and his private interests and/or other duties.

The objects of ADCB Finance Cayman, as referred to in its Memorandum of Association are unrestricted and ADCB Finance Cayman has full power and authority under its Memorandum of Association to carry out any object which is not prohibited by the laws of the Cayman Islands. Permitted objects would accordingly include the issue of the Notes, execution of the Programme Agreement, the Agency Agreement and the Deed of Covenant (the **Transaction Documents**) to which it is a party and other agreements necessary for the performance of its obligations under the transactions contemplated thereby and undertaking activities pursuant to, or that are not inconsistent with, the terms and conditions of the Notes.

Pursuant to the terms of the Transaction Documents, ADCB Finance Cayman may issue securities other than the Notes or otherwise incur indebtedness.

ADCB Finance Cayman has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under the laws of the Cayman Islands. ADCB Finance Cayman's non-audited financial statements are not published and are prepared only for internal purposes. ADCB Finance Cayman is, however, required to keep such books of account as are necessary to give a true and fair view of ADCB Finance Cayman's affairs and to explain its transactions.

ADCB Finance Cayman has no employees and is not expected to have any employees in the future.

DESCRIPTION OF ADCB

Overview

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

ADCB began operations in 1985 with an initial share capital of AED1.50 billion. ADCB's authorised and issued share capital is AED4.81 billion. Since the date of ADCB's incorporation, the Government of Abu Dhabi has indirectly held a controlling interest of at least 60 per cent. of the share capital of ADCB. The Government of Abu Dhabi currently indirectly holds 64.8 per cent. of ADCB's share capital.

ADCB provides a range of consumer and corporate banking, trade finance, project finance, foreign exchange, derivatives, and financial advisory services. ADCB also received approval from the Central Bank on 14 January, 2008 to establish an Islamic banking department, and submitted an application to the Central Bank on 11th March, 2008 to establish an Islamic finance subsidiary. In addition, ADCB holds a 25 per cent. interest in RHB Capital Berhad (**RHBC**), a leading Malaysian bank.

ADCB has 42 branches in the UAE and 2 branches in India (in Mumbai and Bangalore).

As at 31 March, 2008, ADCB's total assets were approximately AED113.99 billion. At the same date, its capital adequacy ratio was 14.01 per cent. (calculated according to the Basel II standardised methodology, see "*Capital Management*" below).

For the period ended 31 March, 2008, ADCB's net interest and other operating income was approximately AED921 million and its net profit for the period was approximately AED517 million. Its net interest and other operating income for the year ended 31 December, 2007 was approximately AED3.80 billion as compared to approximately AED3.10 billion as at 31 December, 2006 and its net profit for the year ended 31 December, 2007 was approximately 2.08 billion as compared to approximately 2.15 billion for the year ended 31 December, 2006. Profits for the year ended 31 December, 2006 were increased as a result of income derived from investments in initial public offerings whereas profits for the year ended 31 December, 2007 were adversely affected as a result of provisions arising from ADCB's sub-prime related investments and the revaluation of property (see the consolidated balance sheet and income statements and notes 9 and 22 to the consolidated financial statements for the 2007 fiscal year (the **Consolidated Financial Statements**.)

History and Recent Developments

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

Following a strategic review conducted during 2003, ADCB embarked upon a restructuring programme designed to create a competitive, contemporary and full-service bank offering a wide range of products and services to its customers and capable of sustainable growth in profitability.

The restructuring strategy was implemented during 2003 and 2004. A new management team was also appointed during that period.

In 2005 ADCB formed a strategic alliance and a joint venture with Australia's Macquarie Bank. The strategic alliance focuses on infrastructure advisory services and fund management. The alliance leverages the specialised infrastructure advisory, fund management and financing capabilities of

Macquarie Bank. The joint venture provides interest rate, currency and commodity derivatives products to clients within the GCC region.

On 14 January, 2008, ADCB received approval from the Central Bank to establish an Islamic banking department, which ADCB expects to launch in September 2008.

ADCB also submitted an application to the Central Bank on 11 March, 2008 to establish Abu Dhabi Commercial Islamic Finance P.S.C, a private joint stock company specialising in Islamic financing products and services. The Central Bank has not yet approved this application.

During May 2008, ADCB also acquired a 25 per cent. interest in RHBC, a leading Malaysian bank (see *“Material Subsidiaries And Overseas Operations – Overseas Operations”* below).

Capital Structure

ADCB’s authorised and issued share capital is AED4.81 billion. ADCB’s shares have a nominal value of AED1 each. The Government of Abu Dhabi currently indirectly holds 64.8 per cent. of ADCB’s share capital.

ADCB’s share capital is listed on the Abu Dhabi Securities Exchange previously known as the Abu Dhabi Securities Market (the **ADX**) and ADCB had a market capitalisation of approximately AED 25.88 billion (U.S.\$7.04 billion) as at 31 March, 2008 as compared to approximately AED25.68 billion (U.S.\$6.9 billion) as at 31 December, 2007.

Strategy

ADCB has formulated a strategy to sustain long-term growth through diversification of its business model, operational effectiveness and an enhanced focus on recruitment. ADCB’s strategy is designed to enhance its competitive presence, generate revenues from new sources and increase its customer base.

ADCB’s strategic initiatives include the following:

- increasing investments to further expand and strengthen ADCB’s business in its core client franchises, i.e. its retail, high net worth individuals, corporate and commercial client franchises;
- a focus on establishing an Islamic banking group and providing Shari’a compliant products and services. Having received Central Bank approval to the establishment of an Islamic banking department, ADCB expects to launch this group in September 2008; and
- expanding its business to a market or markets similar to the UAE market, where ADCB can leverage its core assets and capabilities. The acquisition of RHBC serves as a first step for this initiative.

Material Subsidiaries and Overseas Operations

Material subsidiaries

ADCB holds the following percentage of shares in the following material subsidiaries:

Company	Ownership (%)	Place of Incorporation	Book Value (U.S.\$ millions) as at 31 December, 2007
Abu Dhabi Commercial Properties LLC.....	100%	UAE	(1.31)
Abu Dhabi Risk & Treasury Solutions LLC*	51%	UAE	46.60
Al Dhabi Brokerage Services LLC	100%	UAE	23.06

* ADCB holds a 51 per cent. economic interest in this company until 2011 and a 75 per cent. economic interest from 2012 until 2015.

Overseas operations

ADCB has two branches in India (in Mumbai and Bangalore). Other than these two branches, ADCB has no branches outside the UAE.

During May 2008, ADCB acquired a 25 per cent. interest in Malaysia's RHBC, which is the fourth largest domestic banking group in Malaysia. The consideration paid by ADCB was approximately U.S.\$1.229 billion (AED4.51 billion). This acquisition is expected to generate opportunities for ADCB in the Malaysian market and across Asia, particularly in Islamic banking. RHB Islamic Bank Berhad, an indirectly wholly owned subsidiary of RHBC, is the sixth largest Islamic bank in Asia.

Business Activities

Overview

Operationally, ADCB is divided into 10 groups, of which the principal groups are the following:

- *UAE domestic banking group* – this group includes the retail banking group, wealth management group and business banking group.
 - *Retail banking group* – this group manages banking, consumer finance and card services for retail customers.
 - *Wealth management group* – this group manages banking, consumer finance and card services for high net worth customers, provides third party bancassurance products and third party investment products, as well as fund management services.
 - *Business banking group* – this group handles loans, credit facilities, deposits and current accounts for corporate and institutional customers. This group also provides cash management, trade finance, and internal business support services.
- *Corporate finance and investment banking group* – this group provides investment banking and corporate finance services, including syndicated loan facilities, project finance and strategic investment advice and manages the bank's strategic investments and business expansion initiatives.
- *Treasury and investments group* – this group manages ADCB's investment portfolio, money market and funding operations and liquidity.

UAE domestic banking group

The UAE domestic banking group consists of the following groups:

- *Retail banking;*
- *Wealth management; and*
- *Business banking.*

Retail banking group

ADCB has one of the largest retail banking franchises amongst banks in the UAE and is a market leader in consumer banking. ADCB offers a wide range of products and services through its 42 branches in the UAE. Following significant investments in technology and infrastructure, ADCB has developed a network of 121 ATMs, 36 specialised cheque and cash deposit machines, and provides its clients with SMS, telephone and internet banking services.

In addition, ADCB has 600 direct sales staff, who are outsourced and trained in selling the various retail products and a team of more than 100 tele-callers supported by an IT platform, designed to assist with cross selling.

Wealth management group

The wealth management group was established in 2004. This group targets high net worth customers and provides customised services and products.

The wealth management group also provides third party bancassurance products, third party investment products and portfolio advisory services.

In addition, this group manages several open-ended funds. As at 31 December, 2007, ADCB's funds had net assets under management of approximately AED1.65 billion.

Business banking group

The business banking group consists of the following:

- *small and medium-sized enterprises (SME) unit;*
- *top-tier local corporates (TTLC) unit;*
- *cash management division;*
- *trade finance unit; and*
- *support division.*

The business banking group offers a wide suite of products and services to small, medium and large-sized enterprises, including government-sponsored enterprises, multinational and local corporate entities, banks and other financial institutions as well as government organisations. The group services clients in the UAE, Oman, Saudi Arabia, Qatar and Kuwait.

ADCB's business banking group has launched several new products during 2008 and expects to continue to do so during the remainder of the year. ADCB is also investing in its information technology systems to enhance credit processing and credit scoring.

SME unit

The SME unit caters to SMEs. ADCB has traditionally enjoyed strong relationships with SMEs and offers a range of products developed specifically for SMEs.

TTLC unit

The TTLC unit services TTLCs.

Cash management division

The cash management division caters to the requirements of large corporates, small and medium-sized commercial enterprises, and government entities. Its suite of product capabilities includes account and liquidity management, transaction management, covering payments and collections, and channel management.

Trade finance unit

The trade finance unit offers a range of trade related and trade finance products and services to its customers, including letters of credit, letters of guarantee, confirmation of documentation credits and documentary credit collection, receivables financing and trust receipts.

The trade finance unit has specialised trade operations across the UAE.

Support division

The support division includes the (i) portfolio risk management (**PRM**) unit; (ii) documentation unit; and (iii) quality and control unit.

The PRM unit reviews and assesses credit proposals received from the SME unit and makes suitable recommendations to the relevant lending approval authority. It also ensures that proposals received adhere to ADCB's policies, portfolio risks are identified and appropriately mitigated and deals are structured properly.

The documentation unit reviews approved credit proposals and prepares and processes security documentation for each of ADCB's business units with the exception of the retail banking group and the corporate finance and investment banking group.

The quality and control unit conducts the business banking group's quality program, ensures that accounts are tracked and monitored in accordance with ADCB's pre-defined standards and procedures, provides early warning signals on asset portfolios and reports portfolio quality issues to the business banking group. This division acts as the focal point for quality and control for the business banking group.

Corporate finance and investment banking group

The corporate finance and investment banking group arranges and syndicates facilities and participates in facilities arranged by other institutions in project finance across a range of industry sectors in the UAE, GCC and internationally.

The corporate finance and investment banking group manages ADCB's strategic investments, (including ADCB's investment in RHBC (see "*Subsidiaries and Overseas Operations*" above)), its joint venture with Macquarie Bank, (see "*History and Recent Developments*" above), and certain other project finance, real estate and other investments.

The corporate finance and investment banking group also examines potential strategic opportunities for ADCB such as mergers and acquisitions, leveraged buyouts, private equity transactions, financial structuring and advisory services.

With a view to capitalising on the recent growth in the Indian economy, the corporate finance group has an India exposure debt book, which engages in term lending in the areas of infrastructure financing, acquisition financing and asset-based lending.

Treasury and investments group

The treasury and investments group, through ADCB's joint venture with Macquarie Bank, offers foreign exchange, interest rate, currency and commodity derivative products. In addition, the group is responsible for monitoring ADCB's cash flow and liquidity as well as ADCB's foreign exchange, interest rate and commodities risks. In addition the group manages ADCB's investment portfolio, which includes investments in equity, debt securities and funds.

Compliance

The principal source of banking regulation in the UAE is the Central Bank. The Central Bank provides prudential supervision of, among others, each bank's anti-money laundering controls and general banking activities. Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission of data including anti-money laundering measures.

As a UAE entity, ADCB is also subject to supervision and regulation by both the UAE Ministry of Economy and Planning and local regulatory authorities within each of the Emirates.

Finally, as a company listed on the ADX, ADCB is subject to the rules and regulations enforced by the Emirates Securities and Commodities Authority.

While ADCB's Audit & Compliance Committee oversees and reviews ADCB's compliance procedures and their implementation (see "*Directors, Management and Employees – Board Committees*" below), ADCB's compliance department acts as the focal point and is responsible for implementing, monitoring and ensuring compliance with local regulatory and statutory requirements. Compliance with anti-money laundering procedures and internal training in such procedures is also monitored and implemented by ADCB's compliance department.

Internal Audit

The Internal Audit Department (the IAD) fulfils an independent, objective assurance and consulting function that aims to add value to ADCB's operations. The IAD assists ADCB in accomplishing its objectives by applying a systematic and disciplined approach to evaluating and improving the effectiveness of ADCB's risk management, control and governance processes. The IAD reports to the Board Audit & Compliance Committee.

The IAD consists of 20 auditors (inclusive of credit examiners and operations, financial and information technology auditors), whose task is to evaluate the quality of ADCB's lending portfolio, controls in the operational processes, and the integrity of ADCB's information systems and databases. The IAD's auditors also ensure that transactions undertaken by ADCB are conducted in compliance with the applicable legal and regulatory requirements, and in accordance with ADCB's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

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

The IAD performs its function in accordance with a risk-based audit methodology. Although all of ADCB's units are audited, the frequency of internal audits carried out with respect to each of ADCB's units depends on the inherent risk of that unit and its related control risk evaluation. All audits are conducted in accordance with the annual audit plan, which is approved by the Audit & Compliance Committee.

The audits conducted by IAD during January 2007 to April 2008 discovered no significant unreported off-balance sheet liabilities or unreported items that would materially affect ADCB's earning or capital.

Risk Management

Overview

In common with other financial institutions, ADCB faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (including interest rate risk, currency risk and equity price risk); (iii) liquidity risk; and (iv) legal and operational risk. Each of these risks is described in more detail below.

Efficient and timely management of the risks involved in ADCB's activities is critical to its financial soundness and profitability. Risk management involves identifying, measuring, monitoring and managing risks on a regular basis. The objective of risk management is to increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, ADCB's senior management and IAD routinely review the risk management systems implemented by ADCB.

Credit risk

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

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

ADCB's primary exposure to credit risk arises through its loans and advances to customers. ADCB is also exposed to credit risk on various other financial assets, including derivative instruments and debt investments.

ADCB also, like other financial institutions, undertakes short-term lending in the inter-bank market. ADCB also has procedures in place to manage the risks involved with inter-bank exposure. Lending limits are assigned to each financial institution based on internal assessments and external credit ratings and country ratings. ADCB's treasury middle-office regularly reviews and monitors compliance with lending limits.

In general, ADCB attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, continually assessing the creditworthiness of counter-parties, monitoring lending activities to avoid undue concentrations of risks with individuals or groups of customers or industries, and by obtaining security when appropriate. In addition to monitoring credit limits, ADCB manages the credit exposure relating to its trading activities by entering into master netting agreements and related arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, ADCB may also close out transactions or assign them to other counter-parties to mitigate credit risk. In addition, ADCB has devised specific risk strategies relating to its retail banking group, which are discussed below (see "*Risk Management – Credit Risk – Retail Credit Risk Management*").

ADCB's credit group is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives. Such credit policies and processes must, however, be reviewed and approved by the Executive Committee. Regular audits of business units and ADCB's credit processes are also undertaken by the IAD (see "*Internal Audit Department*" above).

ADCB also uses external ratings such as Standard & Poor's to assess the probability of default of individual counterparties.

In assessing its credit exposure, ADCB's corporate customers are currently categorised in one of ten risk grade categories, in line with Central Bank and Basel II guidelines. Approval of credit exposure to individual corporate customers or groups of customers is controlled through a tiered hierarchy of delegated approval authorities based on the amount sought to be borrowed and the risk grade of the customer.

ADCB's credit policy requires collateral, preferably in the form of financial securities or legal charges over the customer's assets, to mitigate credit risks which cannot be supported on an unsecured basis.

It is ADCB's policy to ensure that provisions for credit loss are maintained at an adequate level on an ongoing basis and in accordance with IAS-39 guidelines.

ADCB adopts a rigorous approach to managing its bad and doubtful debts. Managers specialised in handling such assets maintain contact with delinquent borrowers with a view to maximising recoveries. In appropriate cases, claims are litigated or settled. In keeping with Basel II requirements, ADCB classifies loans as non-performing when payment is 90 days overdue.

It is ADCB's policy to write-off impaired assets only once they have been classified as bad debts for at least 12 months and after reasonable restructuring and collection efforts have taken place and where the possibility of any further recovery is considered to be remote.

Retail Credit Risk Management

ADCB has developed a comprehensive retail consumer credit policy and procedures manual, which establishes the retail banking group's overall risk management framework. The manual establishes operating policies and procedures relating to credit approval and verification, dealer and merchant authorisation, collections, risk mitigation, repossession and foreclosure management and fraud. The policy acts as a guideline for the formulation of individual product credit policy and procedures manuals.

The consumer credit risk department is responsible for the formulation of the individual credit policy and procedures manuals, which must be approved by senior management. Policy and procedures manuals are reviewed annually by the consumer credit risk department and, if necessary, at periodic intervals based on key performance and key risk indicators, changes in the economic environment, feedback on fraud and collections, customer service issues and competition.

Individual policies and procedures manuals are also established with respect to the use of vendors, agents, dealers, brokers and other third parties / intermediaries that directly or indirectly impact credit risk, such as appraisers, realtors, brokers, servicing agents and collections agencies.

Credit exposure is controlled through a tiered hierarchy of delegated approval authorities based on the amount sought to be borrowed and deviations from set policy and procedures. Delegated approval authorities are set out in authority matrices which must be approved by senior management.

Credit parameters for retail lending include age, qualifications and work experience, number of years in the UAE, number of dependents, income level, payment history and leverage ratio. Retail lending is primarily based on customer profile and does not always require collateral.

ADCB has implemented a robust and effective collection strategy for the efficient management of delinquent retail bank accounts.

Provisions are made on a portfolio basis and not on an individual account basis. The portfolios are divided into categories representing the number of days loan payments are in arrears. As a prudent measure, ADCB commences provisions once a loan payment is 1 day overdue.

Loans are classified as non-performing loans once they are 90 days overdue and written off once they are 180 days overdue.

The table below shows a breakdown of ADCB's loan portfolio as at 31 December, 2007 by grade category (AED million):

Business Group	I	II	III	IV	V	Total
	Performing	OLEM ⁽¹⁾	Non-performing	Doubtful	Loss	
Corporate/Govt.	26,693	17	178	106	117	27,111
Commercial	2,633	7	30	22	55	2,747
IBG ⁽²⁾	19,398	—	—	—	—	19,398
HNW ⁽³⁾	18,557	60	35	61	1	18,714
Retail	8,354	51	400	31	20	8,856
Total	75,635	135	643	220	193	76,826
Less Provision for Doubtful Debts						1,150⁽⁴⁾
Loans, net of provision..						75,676⁽⁵⁾

(1) Other Loan Exceptionally Mentioned.

(2) Investment Banking Group.

(3) High Net Worth Individuals.

(4) This figure has been taken from ADCB's audited consolidated annual financial statements as at 31 December, 2007.

(5) Except as noted above in Note 4, all of the financial information in this table has been taken from ADCB's unaudited management data.

ADCB's 20 largest non-performing exposures as at 31 December, 2007 amounted to AED446.8 million and interest in suspense relating to these accounts amounted to AED124.6 million. AED132 million of this amount was provisioned and the assessed net present value of the collateral in respect of these exposures amounted to AED236.02 million.

Market risk management

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

ADCB is exposed to market risk with respect to its investments in marketable securities. ADCB limits market risks by maintaining a diversified portfolio and by monitoring the market. In addition, ADCB actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

The Board of Directors has set risk limits based on sensitivity analyses and notional limits which are closely monitored by ADCB's credit group, reported weekly to senior management and discussed monthly by the Assets & Liabilities Committee (**ALCO**).

ADCB's activities also expose it to risks arising from changes in foreign currency exchanges rates and interest rates. ADCB 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 ADCB's market risk profile transparent to senior management, the Board of Directors and regulators.

All business segments are responsible for comprehensive identification and verification of market risks within their units.

ADCB uses various matrices, both statistical and non-statistical, including non-statistical risk measures and sensitivity analyses, to measure market risk. Non-statistical risk measures, other than stress testing, include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. ADCB uses non-statistical, scenario-based risk limits to monitor and control market risk on a day-to-day basis. The scenarios used for interest rate risk assess the change in the portfolio to parallel and non-parallel rate shocks. The non-parallel rate shocks simulate steepening, bending and twisting interest rate scenarios.

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. ADCB manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

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

ADCB uses simulation modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the ALCO. Since most of ADCB's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously, providing a natural hedge which reduces interest rate exposure. Moreover, the majority of ADCB's assets and liabilities re-price within one year, thereby further limiting interest rate risk.

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

Financial assets that are not subject to cash flow interest rate risk mainly comprise investments in equity instruments.

ADCB's interest sensitivity position on contractual repricing arrangements as at 31 December in each of 2007 and 2006 is indicated at note 33 to ADCB's Consolidated Financial Statements.

Foreign Exchange Risk

ADCB takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ADCB sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

ADCB's significant net exposures denominated in foreign currencies as at 31 March, 2008 are set out in note 16 to the interim financial information for the period ended 31 March, 2008 (the **Interim Financial Information**) and net exposures as at 31 December in each of 2007 and 2006 are set out in note 35 to the Consolidated Financial Statements.

Liquidity risk management

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

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

ALCO sets and monitors liquidity ratios and regularly revises and updates ADCB's liquidity management policies to ensure that ADCB is in a position to meet its obligations as they fall due.

ADCB's liquidity management process, as carried out within ADCB and monitored by ADCB's treasury, includes:

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

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

ADCB's liquidity ratios at the end of the four quarters in each of 2007 and 2006 are set out in note 34 to the Consolidated Financial Statements.

As at 31 March, 2008 ADCB had unsecured standby facilities of U.S.\$725 million to fund its liquidity needs. ADCB's unsecured standby facilities were in the amount of U.S.\$850 million as at 31 December, 2007 and U.S.\$1 billion as at 31 December, 2006.

Sources of liquidity are regularly monitored by a separate team in ADCB's treasury to maintain a wide diversification of its funding sources by currency, geography, provider, product and term.

Equity price risk

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

Derivatives

In the ordinary course of its business, ADCB enters into a range of transactions that involve derivative instruments. In these transactions ADCB assists its customers and counterparties in alerting them to their risk profile in a particular area of risk by structuring transactions to meet the particular needs of the customer or counterparty. The positions accumulated from such activity are typically passed on to others in the market but may in some cases be managed as open positions with a view to making a profit. ADCB manages the risks involved in this activity through appropriate limits and stop loss parameters. These limits vary by product and the current limits are set out in the table below:

<i>Instrument</i>	<i>Currency</i>	<i>Maturity Limit</i>
Foreign exchange options, foreign exchange forwards and cross currency interest rate swaps	AED, USD, JPY, EUR and GBP	10 years
	Others	5 years
Interest rate swaps	AED, USD, JPY, EUR and GBP	30 years
	Others	10 years

ADCB also tracks and monitors other risks and has established additional limits such as single currency foreign exchange limits, long dated foreign exchange volatility limits, expiry date and strike price limits for options, and interest rate limits. All limits are determined after analysing volatility and arriving at the worst-case contingent loss for each limit.

ADCB also 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. ADCB uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. ADCB also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments.

The fair values of ADCB's derivative financial instruments as at 31 March, 2008 are at note 4 to the Interim Financial Information and their fair values as at 31 December in each of 2007 and 2006 are at note 8 to the Consolidated Financial Statements.

Legal and operational risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by ADCB or its counterparty under the terms of its contractual agreements. ADCB seeks to mitigate this risk through the use of properly reviewed documentation and by seeking appropriate legal advice in relation to such documentation when appropriate.

Operational risk is the risk of loss arising from system failure, inadequate or failed internal processes, human error, 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. ADCB cannot expect to eliminate all operational risks, but, with a sound operational risk management framework, ADCB is able to manage risks through assessment processes, including the use of internal audit, mitigation, monitoring, reporting and staff education.

Capital Management

The Central Bank is ADCB's principal regulator and sets and monitors its capital requirements.

ADCB's objective is to have an adequate capital base to enable it to pursue its strategic initiatives and to support the growth of its business (see "*Strategy*" above).

ADCB's senior management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank, monitors capital adequacy and the use of regulatory capital. Returns are filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to: (i) hold the minimum level of the regulatory capital; and (ii) maintain a ratio of total regulatory capital to risk-weighted assets, at or above a minimum of 10 per cent. (this is greater than the 8 per cent. minimum ratio recommendation of the Basel II Accord).

Basel II was introduced in the UAE effective 1 January, 2008. However, the national discretion parameters of Basel II have not yet been finalised by the Central Bank and are currently in draft form. As such, although ADCB has implemented a capital adequacy calculation system in accordance with Basel II, ADCB continues to provide the Central Bank with parallel Basel I and Basel II reports and will

continue to do so until the Central Bank confirms otherwise. The parallel reporting scheme was commenced on a quarterly basis as of June 2007.

Details of ADCB's capital base and risk-weighted assets reported in accordance with Basel I as at each of 31 March, 2008 and 31 December in each of 2007 and 2006 are set out in the table below.

	As at 31 December		As at
	2006	2007	31 March 2008
<i>(AED millions)</i>			
Capital Base	12,193.40	12,880.90	13,235.58
Tier 1 capital	10,676.85	11,506.60	11,949.68
Tier 2 capital	1,469.20	1,469.20	1,469.20
Cumulative change in Fair Values	47.33	(94.80)	(183.30)
Risk-weighted assets			
On-Balance sheet assets	65,815.00	80,607.70	81,792.83
Off-Balance sheet exposure	9,103.70	15,077.30	14,066.23
Total risk-weighted assets	74,918.70	95,684.90	95,859.07
Capital Adequacy Ratio	16.28%	13.46%	13.81%

Details of ADCB's capital base and risk-weighted assets reported in accordance with Basel II as at 31 March, 2008 and 31 December, 2007 are set out in the table below:

	As at 31 December 2007	As at 31 March 2008
<i>(AED millions)</i>		
Capital Base		
Tier 1 capital	11,411,743	11,642,848
Tier 2 capital	1,902,665	1,924,130
Deductions from capital	—	—
Tier 3 capital	—	—
Capital Base (I)	13,314,408	13,566,978
Risk-weighted assets		
Pillar 1		
Credit risk	81,304,259	87,209,011
Market risk	3,743,400	3,684,083
Operational risk	4,315,739	5,966,913
Total risk-weighted assets (II)	89,363,399	96,860,007
Capital Adequacy Ratio	14.90%	14.01%

ADCB currently calculates its capital ratio with respect to the Basel II reports in accordance with Basel II's standardised approach. ADCB is in the process of implementing an internal rating system for its corporate loan portfolio, which it expects will be fully implemented by July 2008. This will allow ADCB to commence probability of default modelling in accordance with Basel II's foundation internal ratings based approach (FIRB). However, the Central Bank is not expected to sanction the adoption of the FIRB approach prior to 31 December, 2010.

In accordance with the Commercial Companies Law, ADCB transfers 10 per cent. of its annual profits to its statutory reserve and will continue to do so until such time as the reserve equals 50 per cent. of the issued share capital of ADCB. The reserve is not available for distribution.

Investments

The following table sets out details of the investments held by ADCB as at 31 March, 2008 and 31 December in each of 2007 and 2006.

	As at 31 December		As at
	2006	2007	31 March 2008
	<i>(AED millions)</i>		
Available for sale investments			
Quoted investments.....	2,823.7	2,784.20	2,695.4
Unquoted Investments.....	614.9	493.8	458.7
Allowance for impairment	—	(378.51)	(469.8)
Total available for sale	3,438.6	2,899.5	2,684.3
Held for maturity	262.1	68.6	14.7
Total non trading Investments	3,700.7	2,968.1	2,699.0

- (1) Available for sale investments include equity instruments for an amount of AED152.4 million as at 31 March, 2008 (2007: AED152.4 million; and 2006: AED4.6 million) which is carried at cost.
- (2) The fair value of held to maturity investments as at 31 March, 2008 approximates its carrying value less impairment allowance (2007 approximates its carrying value less impairment allowance).
- (3) Investments previously classified under “Originated Notes” have been reclassified under the “Available for Sale” category in accordance with revisions to International Accounting Standard 39, Financial Instruments: Recognition and Measurement, effective from 1 January, 2006.

Information Technology

ADCB’s information technology (IT) department is responsible for ADCB’s IT strategy, planning, co-ordination and all related technical services throughout ADCB. ADCB’s IT strategy is focused on providing reliable and available information and systems to its customers and employees in a secure environment, based on enterprise monitoring within well-defined service level agreements and key performance indicators.

For ADCB’s customers, the IT department focuses on providing a convenient and efficient banking service, offering a full range of remote banking services, including ATMs, internet banking, mobile banking and telephone banking. For ADCB’s internal business, the IT department focuses on providing effective methods and processes for promoting and delivering IT services.

ADCB has a disaster / recovery site on remote premises that can be activated in the case of any unforeseen accident to ensure that critical systems and data continue to be fully operational and to provide essential services to its customers. A business continuity plan (BCP) is currently being developed and ADCB expects the BCP to be implemented and tested by the end of the first quarter of 2009.

ADCB carries out daily and other periodic data back ups which are stored outside the head office.

ADCB expects to commit an average of U.S.\$30-40 million (approximately AED110-147 million) in each of the next three years on new hardware and software investments implementing business and infrastructure applications.

Property

ADCB’s principal fixed assets include property and equipment.

Legal Proceedings

There are currently a number of routine legal proceedings pending against ADCB aggregating AED10.1million. Based on the opinion of ADCB's legal advisors, senior management believes that no significant liability is likely to arise from these proceedings. Therefore, no material provision has been made as at 31 March, 2008 regarding any outstanding legal proceedings against ADCB. Pending legal proceedings are reviewed on an ongoing basis and provisions are made at the end of each fiscal quarter subject to the approval of the CEO.

Competition

The UAE is a leading financial centre in the Middle East, being home to a large number of financial institutions, including retail banks, investment houses, brokerage firms and insurers.

In common with other financial institutions, ADCB competes in the UAE in relation to both its retail and corporate customers. In the retail area, ADCB faces competition from other UAE banks and non-bank financial institutions and certain international institutions with a retail presence in the UAE.

ADCB considers its principal competitive strengths in the retail area include its strong market share and franchise reflecting its large and loyal customer base. In addition, ADCB is indirectly majority owned by the Government of Abu Dhabi. ADCB also has one of the largest branch and ATM networks in the UAE.

In the corporate area, ADCB's principal competitors are locally established banks in the UAE as well as international banks with a presence in the country. ADCB believes that its strategic alliance and joint venture with Macquarie Bank gives ADCB significant competitive strength in the infrastructure and treasury business areas.

In relation to investment banking, ADCB competes with local, regional and major international financial institutions. The market for investment banking and major infrastructure financing services in much of the Middle East has been strong in recent years, driven by high oil prices and significant construction activity. This has given rise to increased competition, particularly from international financial institutions. However, ADCB believes that its in depth knowledge of the local and regional market gives it significant competitive strength.

SELECTED FINANCIAL INFORMATION RELATING TO ADCB

Balance Sheet Maturity Profile

The table below summarises the maturity profile of ADCB's assets and liabilities as at 31 March, 2008 and 31 December in each of 2007 and 2006, based on remaining contractual maturities (which do not take into account effective maturities as indicated by ADCB's deposit retention history and the availability of liquid funds):

	As at 31 March, 2008					
	Total	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years
	<i>AED'000</i>					
Assets						
Cash and balances with Central Banks	12,976,923	12,976,923	–	–	–	–
Deposits and balances due from banks	10,027,964	9,301,289	1,465	725,210	–	–
Trading securities.....	112,641	112,641	–	–	–	–
Loans and advances, net	80,002,245	17,989,774	1,553,725	4,970,143	13,222,183	42,266,420
Derivative financial instruments.....	5,163,343	–	–	5,163,343	–	–
Investment securities.....	2,699,048	544,224	–	–	707,668	1,447,157
Investment properties.....	445,730	–	–	–	–	445,730
Other assets.....	2,068,757	2,068,757	–	–	–	–
Property and equipment, net	494,619	–	–	–	–	494,619
Total assets	113,991,270	42,993,608	1,555,190	10,858,696	13,929,851	44,653,926
Liabilities and Equity						
Due to banks	7,514,171	6,680,453	73,460	50,538	329,052	380,668
Customers' deposits.....	59,226,689	49,637,254	6,951,682	2,579,883	47,336	10,534
Short and medium term borrowings	29,122,001	688,326	–	2,870,475	11,221,632	14,341,568
Derivative financial instruments.....	4,063,826	–	–	4,063,826	–	–
Other liabilities	2,298,200	2,298,200	–	–	–	–
Equity.....	11,766,383	–	–	–	–	11,766,383
Total liabilities and equity.....	113,991,270	59,304,233	7,025,142	9,564,722	11,598,020	26,499,153

As at 31 December, 2007

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

As at 31 December, 2006

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

Funding

The following table sets out the sources of funding for ADCB as at 31 March, 2008 and 31 December in each of 2007 and 2006.

	As at 31 December 2006		As at 31 December 2007		As at 31 March 2008	
	AED	%	AED	%	AED	%
<i>(AED millions and as a percentage of total funding)</i>						
Customer deposits						
Demand deposits	9,725.4	22.4	13,347.9	23.4	16,235.1	27.4
Time deposits	27,736.9	63.9	34,206.6	59.8	31,840.9	53.8
Saving deposits	1,007.3	2.3	1,114.2	1.9	1,248.0	2.1
Other	4,927.2	11.4	8,492.1	14.9	9,902.7	16.7
Total customer deposits	43,396.8	100.0	57,160.8	100.0	59,226.7	100.0
Due to banks						
Current and demand deposits.....	171.8	2.2	227.8	4.1	840.7	11.2
Short term deposits	7,781.9	97.6	5,037.1	90.0	5,913.2	78.7
Long term deposits	16.3	0.2	333.5	6.0	760.3	10.1
Total due to banks	7,970.0	100.0	5,598.4	100.0	7,514.2	100.0
Short and medium term borrowing	16,610.2	–	27,370.3	–	29,122.0	–
Derivative financial instruments.....	806.1	–	2,413.2	–	4,063.8	–
Other liabilities	1,580.9	–	2,259.4	–	2,298.2	–
Total funding	70,364.0	100.0	94,802.1	100.0	102,224.9	100.0

ADCB's principal source of funding is its customer deposits, which as at 31 March, 2008, accounted for approximately 58 per cent. of its total funding as compared to 60.3 per cent. as at 31 December, 2007.

As at 31 March, 2008, the aggregate amount of ADCB's liabilities totalled AED102.2 billion, including customer deposits of AED59.2 billion as compared to AED94.8 billion as at 31 December, 2007, including customer deposits of AED57.2 billion.

As at 31 December, 2007, ADCB's 20 largest depositors accounted for 41.6 per cent. of ADCB's total customer deposits. As at 31 December, 2007, 80.5 per cent. of ADCB's total deposits were from UAE residents, and of that 80.5 per cent., 29.0 per cent. came from the Government of Abu Dhabi, 18.0 per cent. from public sector institutions and 24.0 per cent. from private sector institutions, with the remainder principally being deposits by UAE resident individuals.

Provisions for Credit Losses

The following table sets out the movements in provisions for credit losses as at 31 March, 2008 and 31 December in each of 2007 and 2006:

	As at 31 December		As at 31 March
	2006	2007	2008
<i>(AED millions)</i>			
Balance at the beginning of the year	714.1	982.9	1,150.0
Currency translation adjustment	0.7	4.4	(0.4)
Net amounts (written off)/written back	74.6	19.3	26.7
Recoveries	(145.8)	(151.9)	(62.5)
Charge for the period	339.3	295.3	70.1
Balance	982.90	1,150.00	1,183.9

The net charge to income on account of provision for possible credit losses was AED7.5 million as at 31 March, 2008 and AED143.4 million in 2007 as compared to AED193.4 million in 2006. As a result, non-performing loans as a percentage of gross loans fell from 1.8 per cent. as at 31 December, 2006 to 1.4 per cent. as at 31 December, 2007 and the provision, as a percentage of non-performing loans, increased from 83.44 per cent. as at 31 December, 2006 to 109.0 per cent. as at 31 December, 2007. ADCB adopts a conservative approach towards provisioning loans and other credit.

Related party transactions

ADCB enters into transactions with major shareholders, directors, executive management and their related concerns in the ordinary course of its business and at commercial interest and commission rates. As at 31 December, 2007, ADCB had made loans and advances to related parties totalling AED116.9 million and had received customer deposits from related parties totalling AED4.52 billion. ADCB also had irrevocable commitments and contingencies with related parties in the amount of AED76.2 million as at 31 December, 2007. Due to the nature of ADCB's controlling shareholder, the Government of Abu Dhabi (which encompasses a number of government controlled entities), it is impractical to disclose fully all related party transactions between ADCB and its indirect controlling shareholder as well as ADCB's related companies as described by IAS 24.

DIRECTORS, MANAGEMENT AND EMPLOYEES OF ADCB

The Board of Directors is responsible for the management and strategy of ADCB. The Board of Directors is entitled to delegate any of its powers to the Executive Committee or to any other committee consisting of two or more Directors.

The principal role of the Board of Directors is to oversee the implementation of ADCB's strategic initiatives and its functioning within relevant statutory and regulatory structures. The Board of Directors meets regularly (eight to nine times per year) and is required to meet at least six times per year. Currently, the Board of Directors has a maximum of 9 members. The majority shareholder has the right to appoint up to 5 members of the Board, including the Chairman.

Each Director holds his position for 3 years, following which he must submit to the annual general assembly of shareholders for re-appointment. The majority of the Directors of ADCB are required to attend for there to be a quorate board meeting. A Director may appoint another Director to represent and vote for him in his absence.

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

Board of Directors

<i>Position</i>	<i>Name, background and other assignments</i>
Chairman of the Board	<i>H.E. Saeed Mubarak Rashed Al Hajeri</i>
Chairman of the Executive Committee Member of the Asset Management & Advisory Committee and Nomination, Compensation & HR Committee	Board Member – ADIA; Executive Director – Emerging Markets Department, ADIA; Board Member – Emirates Telecommunications Corporation; Board Member – Higher Corporation for Specialised Economic Zones; Board Member – Dubai Cable Company; Board Member – Arab Banking Corporation.
Board Director	<i>Mr. Mohamed Darwish Al Khouri</i>
Chairman of the Risk Committee Member of the Audit & Compliance Committee and Corporate Governance Committee	Executive Director – Internal Equities Department, ADIA; Board Member – National Marine Dredging Company; Board Member – Al Bena Property Investment Company
Board Director	<i>Mr. Rashid Humaid Al Mazroei</i>
Chairman of the Audit & Compliance Committee	Chairman & Managing Director – Bahri & Mazroei Group; Board Member – Dubai Chamber of Commerce & Industry; Board Member – Federation of U.A.E. Chamber of Commerce & Industry; and Board Member – Dubai Council for Economic Affairs, Government of Dubai.
Board Director	<i>Mr. Aamer Abdul Jalil Al Fahim</i>
Member of the Audit & Compliance Committee and the Nomination, Compensation & HR Committee.	Executive Director – Al Fahim Group; Member – Federal National Council; UAE; Chairman – Aradi Properties P.J.S.C.; Board Member – Abu Dhabi Chamber of Commerce & Industry; Board Member – Al Wathba Insurance Company; Board Member – Al Qudra Holdings; Board Member – Al Safwa Islamic Financial Services; Board member – International Investment

Bank, Bahrain; Member of Honorary Board & President of Marketing Committee – Al Ain Sports & Cultural Club; and Member of the Executive Committee – Damas LLC.

Board Director

Mr. Abdulla Khalil Al Mutawa

Member of the Executive Committee, Corporate Governance Committee and Risk Committee

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

Board Director

Mr. Jean-Paul Pierre Villain

**Chairman of the Asset Management & Investment Advisory Committee
Member of the Executive Committee and Nomination, Compensation & HR Committee**

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

Board Director

Mr. Mohamed Sultan Abdulla Ghanoom Al Hameli

**Chairman of the Nomination, Compensation & HR Committee
Member of the Executive Committee**

Board Member – Abu Dhabi Development Fund; Board Member – Abu Dhabi Airport Company; and Assistant Undersecretary of the Finance Department of the Government of Abu Dhabi.

Board Director

Mr. Mohammed Ali Al Dhaheri

Member of the Asset Management & Investment Advisory Committee, Audit & Compliance Committee and Risk Committee

Accounting & Financial Services – Abu Dhabi Investment Council; and Board Member – Abu Dhabi Investment Company.

Board Director

Mr. Salem Mohammed Athaith Al Ameri

**Chairman of the Corporate Governance Committee
Member of the Executive Committee and Nomination, Compensation & HR Committee**

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

The business address of each member of the Board of Directors is P.O. Box 939, Abu Dhabi, United Arab Emirates.

No member of the Board of Directors has any actual or potential conflict of interest between his duties to ADCB and his private interests and/or other duties.

All Directors are liable to ADCB, its shareholders and third parties for any acts of fraud, power abuse, violation of law, violation of its articles of association or for mismanagement.

Certain Directors are shareholders of ADCB. The table below sets out the number of shares held by each Director as at 31 March, 2008:

<u>Director</u>	<u>31 March, 2008</u>
Mr. Aamer Abdul Jalil Al Fahim	1,601,114
Mr. Abdulla Khalil Al Mutawa.....	1,951,998
Mr. Jean-Paul Pierre Villain	5,000
Mr. Mohammed Ali Al Dhaheri	0
Mr. Mohamed Darwish Al Khouri	530,000
Mr. Mohamed Sultan Abdulla Ghanoom Al Hameli	0
Mr. Rashid Humaid Al Mazroei.....	13,436,717
H.E. Saeed Mubarak Rashed Al Hajeri	155,000
Mr. Salem Mohammed Athaith Al Ameri	0

Certain members of the Board of Directors, their families and companies of which they are principal owners are customers of ADCB in the ordinary course of business. The transactions with these parties were made on substantially the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk (see “*Selected Financial Information Relating to ADCB – Related party transactions*” above).

Executive management

The executive management of ADCB is as follows:

<u>Position</u>	<u>Name</u>
Chief Executive Officer	Eirvin Knox
Deputy Chief Executive Officer	Ala’a Eraiqat
Acting Chief Financial Officer and Head – Financial Planning & Control	Vijay Kasturi
Head – Operations & IT	Thierry Bardury
Head – Investment Banking	Seumas Gallacher
Head – Legal and Special Assets	Zaki Hamadani
Head – Human Resources	Sultan Al Mahmoud
Head – Internal Audit	Abdirizak Ali
Head – Corporate Finance Division	Alok Kakar
Head – Credit	Robert Price
Acting Head – Treasury & Investments	Walter Pompliano
Head – Business Banking	Sari A’rar
Head – Government Banking	Jasim Al Darmaki
Head – Retail Banking	Arup Mukhopadhyay
Head – Wealth Management	Ahmed Barakat
Head – Corporate Communications & Director of Chairman’s Executive Office	Yaser Mansour
General Counsel & Board Secretary	Simon Copleston

The business address of each member of the Executive Management is P.O. Box 939, Abu Dhabi, United Arab Emirates.

No member of the Executive Management of ADCB has any actual or potential conflict of interest between his duties to ADCB and his private interests and/or other duties.

ADCB is in the process of hiring a permanent Chief Financial Officer to replace the current acting head, Vijay Kasturi. Vijay Kasturi will retain the position of head of financial planning and control. ADCB is also in the process of hiring a permanent head of treasury and investments to replace the current acting head, Walter Pompliano.

Board Committees

ADCB has the following six board committees:

Executive Committee

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

Asset Management & Investment Advisory Committee

The Asset Management & Investment Advisory Committee is responsible for reviewing and advising ADCB on its existing and future investments as well as any funds operated by ADCB.

Audit & Compliance Committee

The Audit & Compliance Committee is responsible for relations with and supervision of ADCB's external auditors. The Audit & Compliance Committee also oversees ADCB's internal audit processes and departments, is responsible for ensuring that ADCB has a comprehensive policy on risk management, which includes policies and procedures in respect of credit, market, country, operations, liquidity, interest rate, legal and reputation-related risks and reviews ADCB's compliance policies and their implementation, as well as the effectiveness of ADCB's compliance monitoring systems. The Audit & Compliance Committee reviews all related party transactions, is responsible for structuring whistle-blowing procedures and implements the highest ethical standards.

Corporate Governance Committee

The Corporate Governance Committee is responsible for the development of ADCB's corporate governance procedures, compliance with regulatory requirements relating to corporate governance and public reporting on corporate governance matters. The Corporate Governance Committee reports to and updates the Board on all relevant corporate governance issues.

Nomination, Compensation & HR Committee

The Nomination, Compensation & HR Committee is responsible for reviewing the composition of the Board, identifying and filtering candidate Directors and ensuring that independent Directors maintain their independence. The Nomination, Compensation & HR Committee also implements formal structures to review Director skills requirements and recruitment practices and recommends and annually reviews the remuneration of Directors, senior executives and other staff (including long term incentive schemes). The Committee develops, applies and reviews human resources and training policies and determines ADCB's employment requirements for executive managers and

employees. It also prepares briefing documents and orientation and training sessions for new and existing Directors.

Risk Committee

The Risk Committee oversees the development of ADCB's risk measurement tools ensures the proper development and implementation of risk management strategies and limits and oversees the disclosure of risk information and data. The Risk Committee is also responsible for ensuring ADCB's compliance with regulatory compliance related to risk management.

Although the Risk Committee has been allocated responsibility for the management of risks, the Risk Committee's functions will not be fully implemented until the end of 2008. Until that time, the Executive Committee will oversee the risk management function.

Employees

As at 31 March, 2008, ADCB employed 2,157 members of staff.

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

Remuneration Policy

ADCB has a variable pay scheme for middle and senior management under which performance bonuses are awarded based on annual performance appraisals. The bonus awarded is dependent on individual performance, the performance of the respective business unit and the performance of ADCB.

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

Emiratisation

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

In line with UAE government policy, ADCB has made a commitment to employing and training UAE nationals. Emiratisation is a bank-wide initiative led by the Chief Executive Officer, Eirvin Knox, and the Deputy Chief Executive Officer, Ala'a Eraiqat, who holds the most senior position held by a UAE national in ADCB. ADCB has implemented a wide number of initiatives to recruit, train and retain qualified UAE nationals across all business segments and positions in ADCB. As a result, the number of UAE nationals employed by ADCB grew from 253 in 2005 to 483 in 2007, a substantial growth of 91 per cent., with the percentage of UAE national employees at ADCB having grown from 15.41 per cent. in 2005 to 24.72 per cent. in 2007.

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OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE is a federation of seven emirates. Formerly known as the Trucial States, the Emirates were a British protectorate until they achieved independence in December 1971 and merged to form the federation of the United Arab Emirates. In common with other Arab states in the Gulf region, all of the Emirates have traditional monarchical governments which rule by Emiri decree with no democratic representation. Each emir reserves a high degree of political autonomy within the Federation, though in practice, real power is vested in the two richest Emirates, Dubai and Abu Dhabi. The other five Emirates are Sharjah, Ajman, Umm Al-Qaiwain, Fujairah and Ras Al-Khaimah.

The federation is governed by the Supreme Council of the Rulers. This is the highest federal governing body and consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President (for renewable five year terms). HH Sheikh Zayed Bin Sultan Al-Nahyan, Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004 and has been succeeded by his son, HH Sheikh Khalifa Bin Zayed Al-Nahyan.

Abu Dhabi is the richest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the federation. The Emirate of Abu Dhabi owns and controls approximately 90 per cent. of the capital wealth of the UAE. Considering this financial wealth, it may, in cases of need, financially assist the rest of the federation. During his long presidency, the late HH Sheikh Zayed Bin Sultan Al-Nahyan oversaw massive investment in the infrastructure of the UAE which has transformed the country. Much of Abu Dhabi's wealth is now in overseas assets, built up from surplus oil reserves by the Abu Dhabi Investment Authority (ADIA), the investment arm of the Abu Dhabi Government. In 2007, the Abu Dhabi Investment Council (ADIC), a sister institution to ADIA, was established for the purpose of investing government funds domestically and internationally. The management of official investment funds will be shared between ADIA and ADIC.

The UAE is the second largest economy in the Arab world and has been steadily growing over the last decade, faltering only twice, in 1998 and 2001, due to lower oil prices and OPEC-mandated production cuts. Although it has a more diversified economy than most of the other countries in the Gulf Co-operation Council (GCC) region, its wealth is still largely based on oil and gas. Since oil prices are expected to stay high in 2008, prospects for the economy this year continue to be bright. Fluctuations in energy prices do have a bearing on economic growth, but the UAE is viewed as being in a less vulnerable position than some of its GCC neighbours, due to the robust growth in the non-oil sector and the sizeable wealth of the Government of Abu Dhabi. The two main Emirati governments of Abu Dhabi and Dubai are spending substantial amounts on expanding infrastructure. Whilst Abu Dhabi is focusing on downstream oil and gas projects, Dubai is emphasizing the tourism, leisure, trade and financial sectors. Both Emirates have announced multi-billion dollar projects that will keep the real estate, construction and related sectors busy for many years.

The performance of the UAE economy during 2007 was strong. Estimates suggest that GDP has risen to U.S.\$190 billion in 2007, representing a 16.5 per cent. growth from 2006, with real GDP growth estimated at 7.4 per cent. in 2007. Exports went up to U.S.\$159 billion whilst imports rose to only U.S.\$94 billion and, as such, the trade balance widened to U.S.\$65 billion. Oil export revenues are being estimated at U.S.\$64 billion with oil production averaging 2.730 mbpd. with the Current Account balance closing at U.S.\$46 billion surplus. Total external debt rose marginally to U.S.\$16.5 billion. Inflation has also risen and a change in the AED/U.S.\$ peg (currently at 3.67 AED: 1 U.S. dollar) has been offered as a solution, but so far this has been resisted by the UAE Central Bank.

With regard to monetary and banking developments, money supply (M1) during the first half of 2007 rose by 25 per cent., to reach AED150 billion. Consequently, private domestic liquidity (M2) expanded by AED76 billion (19 per cent.) to reach AED47 billion. Overall liquidity (M3) rose by AED94 billion (19 per cent.) to reach AED600 billion. Quasimonetary deposits reached AED325 billion. Due to its fixed peg to the U.S. Dollar, the dirham depreciated against most major currencies

during 2006. The rate of exchange of the dirham remained extensively unchanged against all GCC currencies at the end of 2007 compared to its rate at the end of 2006. The issue of currency is solely and exclusively exercised by the UAE Central Bank.

The UAE population is estimated to have grown by 7.0 per cent. during 2007, compared to 2006 levels, and it is now estimated that there are over 5 million people living in the UAE. Males constituted approximately 73.4 per cent. of the population (due in large part to expatriate labour in the construction industry).

The banking sector performed particularly well in 2007 with nearly all banks reporting strong growth in profitability, assets, loans and customer deposits. Higher trade finance, personal loans and corporate lending resulted in strong credit growth. Liquidity levels in AED remain high and customer deposits increased at a robust pace despite lower interest rates. Interest spreads were little changed from 2006. Nearly all banks have focused on increasing their non-interest revenues; growing trade finance activities have improved commissions and foreign exchange earnings, while rising consumer banking activities have pushed up fee income. Risk charges have come down due to improved asset quality. Overall, the net profit of the banking sector increased quite generously. The turmoil in the global credit markets has had little direct impact on UAE banks, but the tightness in currency markets has emphasised lending in local currency.

In 2006, the aggregate balance sheet of banks operating in the country grew by AED221 billion (34 per cent.) to reach AED860 billion against AED638 billion at the end of 2005.

The UAE enjoys good relations with other states in the GCC and regional neighbours, however, it is not immune to the political risks and volatility that have over-shadowed the region, particularly in the last couple of years. The economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, foreigners are not permitted to have a controlling interest in UAE businesses and corporates. To circumvent this rule, Dubai and other Emirates have established trade and industry free zones as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership in the World Trade Organisation (the WTO), progress towards economic liberalization has been slow, but trade agreements with Europe and the United States are being negotiated.

THE UNITED ARAB EMIRATES BANKING SECTOR AND REGULATIONS

Summary

With 51 banks (comprised of 23 locally-incorporated banks and 28 foreign banks) serving a population estimated to be in the region of approximately 5.6 million, the UAE could be viewed as an over-banked market, even by regional standards. Whilst UAE banks continue to be profitable and generally free from asset quality problems, there is little impetus for consolidation. The UAE's membership in the WTO will require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

As a banking regulator, the Central Bank has grown in stature over the years. The Central Bank monitors banks through its Banking Supervision Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all the returns submitted by the banks to the Central Bank. The Central Bank does not act as a lender of last resort, a role which tends to fall on the individual Emirs of each Emirate.

Characteristics of the Banking System

Lack of Consolidation

Although the UAE may be seen as being over-banked with 51 (comprised of 23 locally-incorporated banks and 28 foreign banks) different banks licensed to operate inside the Federation (excluding the Dubai International Financial Centre (DIFC)), most banks show healthy levels of profitability and maintain sound asset quality, and so traditionally there has been little impetus for consolidation. Mergers in the past have tended to come as a result of banks facing financial difficulties. The federal structure of the country has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in March 2007, it was announced that Emirates Bank International P.J.S.C and National Bank of Dubai P.J.S.C would merge and the newly formed Emirates NBD will offer great competition across the region, which may create new impetus for consolidation.

The relatively small size of most UAE banks has sometimes hindered them from competing for large financing deals in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as IT system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, possibly even creating banks with pan-Gulf franchises.

Domestic Focus

The UAE incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross border business.

With a large number of players chasing a limited number of wholesale lending opportunities, most banks have been turning to retail banking, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has yet to be tested under adverse conditions, it is difficult to know to what extent the latter will lead to asset quality problems in the future.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and Internet banking services. As a consequence, IT costs have been a prominent feature of many banks' expenses.

The credit card market has been an area of recent expansion; however, there remains further potential for growth. Credit card usage in the Gulf is low by international standards, although the credit card market expanded by approximately 15 per cent. between 2006 and 2007 and it is estimated that there are now approximately 2.5 million credit cards in circulation in the UAE.

Limited Foreign Ownership

In 1987, the Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, have recently been awarded licences by the UAE Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The entry of these banks raised the number of foreign banks operating in the UAE to 28 and all banks to 51. The opening of the DIFC has enabled international banks to establish a presence and contest the wholesale banking market and this has seen new entities entering the market place.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, the UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment, but gradually the private non-oil sector is gaining ground and the economy is becoming less susceptible to oil shortages.

Islamic Banking

Islamic (Shariah) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products, which though broadly correspond with conventional banking transactions, are structured in such a way as to avoid the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates Islamic Bank, Sharjah Islamic Bank, Osool Finance and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as an Islamic banks.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees, local laws and Shariah (Islamic) Law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government will apply his or its own rules, regulations and practices.

Supervision of Banks

The main piece of legislation covering the banking system is Union Law No 10 of 1980 (the **Union Law**) which established the Central Bank. The Central Bank's primary roles are to formulate and implement banking, credit and monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies

It is also the "bank for banks" in the country; however, it is not the "lender of last resort". In the event of a bank getting into financial difficulties or facing a solvency crisis, rescue funds such as long-term liquidity or equity support has historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it would ultimately

be the Government of Abu Dhabi who would stand as *de facto* defender of the currency and the lender of last resort.

Income from overseas investments has been used to fund fiscal deficits, obviating the need for the Central Bank to issue government debt. However, the Central Bank does issue certificates of deposit (CDs) to the banks, denominated in both U.S. dollars and UAE dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the Central Bank at any time and recently the UAE Central Bank introduced an auction system and allowed U.S. dollars drawings against UAE dirhams CD holdings.

The UAE dirham is linked to the IMF Special Drawing Right. However, the U.S. dollar is the intervention currency and in reality the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices, however, with inflation gathering pace, there are suggestions that the currency should be revalued.

The Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 4 of 2002 regarding the criminalisation of money laundering. It has established an Anti-Money Laundering and Suspicious Cast Unit which act as the Financial Intelligence Unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee (NATC). The NATC serves as a UAE interagency liaison.

Although the Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the Dubai International Financial Centre.

The Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

Lack of Developed Capital Markets

The absence of mature bond or equity markets in the UAE means that banks have tended to shoulder the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. However, the two stock markets, the Dubai Financial Market and the ADX (both of which were established in 2000), continue to develop and the number of listed companies continues to increase.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The Dubai International Financial Exchange is a securities exchange located in the DIFC which commenced operations on 26 September, 2005.

Government Involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow

to happen in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

Expatriate Workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 80 per cent., of the workforce. The banking sector is no exception to this and expatriates are represented in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. The high level of expatriates in the economy country has been an increasing concern to the Federal Government and as part of a policy of "Emiratisation" banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Banks are generally moving closer to this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January, 1999 all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January, 2008.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "National" banks, of which there are currently 23, are required to be public shareholding companies with a minimum share capital of AED40 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there are currently 28, need to demonstrate that at least AED40 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers).

Recent trends in Commercial Banking

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. High oil prices, high liquidity, and strong retail demand due to booming non-oil economy in the last few years improved the profitability of the banking sector and banking sector profits in 2007 are expected to have grown by more than 25 per cent. (for the majority of banks). Return on equity for most UAE banks compares well internationally, reflecting the high margins that can be earned in the region, particularly on retail lending and low cost income ratios.

Capital

The national banks are well capitalized by international standards. The Central Bank requires all UAE banks to have minimum capital adequacy ratios of 10 per cent., (which is above the 8 per cent. requirement for Basel II) and many are healthily above that margin. This reflects a tendency amongst banks to be more concerned about safeguarding shareholders' interests and capital preservation rather than maximising returns. While the calculation of capital adequacy ratios in the UAE follows the BIS guidelines, GCC sovereign debt is risk-weighted at nil per cent.

Liquidity

The Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have adequate systems and controls to manage their liquidity positions, as well as contingency plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum loan deposit ratio of 100 per cent. set by the Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through customer deposits. Deposits from individuals and private sector, together constitute 65 per cent. of total deposits. The Federal Government and the public sector contribute approximately 25 per cent. of total deposits while non-resident and other sources contributed approximately 10 per cent. As few banks have long term funding, they maintain a significant part of their balance sheet in liquid assets. Loan-to-assets ratios are typically below 65 per cent.

Position of Depositors

There is no formal depositor protection scheme in the UAE. Whilst no bank, so far, has been permitted to fail, a number have been rescued by the authorities.

Prudential Regulations

The Central Bank has supervisory responsibility for banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

Capital Adequacy

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Since 1993, the Central Bank has imposed a 10 per cent. minimum total capital ratio. The Tier 1 ratio must be above 6 per cent. and Tier 2 capital must not exceed 67 per cent. of Tier 1 capital. Tier 2 capital includes undisclosed reserves, revaluations of assets (limited to a maximum of 45 per cent. of the excess of market value over net book value and property revaluation reserves are excluded), hybrid capital instruments and subordinated term loans. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital. GCC sovereign debt is risk-weighted at nil per cent. Basel II was introduced effective 1 January, 2008.

Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

Reserve Requirements

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

Credit Controls

Banks are required to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

The Central Bank defines large exposures as any funded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. The large exposure limits (defined as a percentage of the bank's capital base) are as follows:

- to a single borrower or group of borrowers – 7 per cent.;
- to a shareholder of the bank holding more than 5 per cent. of the bank's capital – 7 per cent.;
- overseas interbank exposures – 30 per cent. (UAE interbank exposures are subject to a 25 per cent. limit if their maturity is over one year, otherwise they are exempt from the regulations);
- to the bank's parent company, subsidiaries or affiliates – 20 per cent. (60 per cent. for all such exposures in aggregate); and
- to Board members – 5 per cent. (25 per cent. in aggregate).

Exposures above these limits are subject to Central Bank approval. Exposures to the government and sovereign risk are exempt from the regulations.

In addition, the following UAE Central Bank lending limits also require that:

- no commercial bank can hold shares or bonds issued by commercial companies in excess of 25 per cent. of the bank's own funds; and
- no bank is permitted to grant loans or advances for the purpose of funding commercial or residential real estate construction in an amount exceeding 20 per cent. of its total deposits, unless it has prior authorisation from the UAE Central Bank as an institution specialising in this type of business.

Provisions for Loan Losses

The UAE Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., respectively. Any loans with either interest or principal in arrears by more than 180 days must be placed on a non-accrual basis and classified as nonperforming. In practice, several banks operate more stringent policies and place loans on a nonaccrual basis as soon as their recovery is in doubt.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

TAXATION

The following summary of certain Cayman Islands, United Arab Emirates and European Union Savings Directive tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the acquisition, ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

Cayman Islands

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. ADCB Finance Cayman received on 27 May 2008 an undertaking from the governor-in-cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as revised) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to ADCB Finance Cayman or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Notes) of ADCB Finance Cayman or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Notes. However, an instrument transferring title to such Notes, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.\$575. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to the payments on the Notes is based on the taxation law and practice in force at the date of this Base Prospectus, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments of interest or principal on debt securities (including the Notes).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into “Double Taxation Arrangements” with certain other countries, but these are not extensive in number.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 17 June, 2008, agreed with the Obligors a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Obligors have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Obligors and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Obligors for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Obligors; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the **FIEL**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Cayman Islands

Each Dealer has represented and agreed that no offer or invitation to subscribe for the Notes has been or will be made to the public of the Cayman Islands.

United Arab Emirates

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Each Dealer acknowledges, and each further Dealer appointed under the Programme will be required to acknowledge, that the information contained in this Base Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Base Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Obligors nor any of the other Dealers shall have any responsibility therefor.

None of the Obligors or the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Obligors and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes by each of ADCB and ADCB Finance Cayman have been duly authorised by a resolution of the Board of Directors of each of ADCB and ADCB Finance Cayman dated 27 May, 2008 and 16 June, 2008 respectively. The giving of the Guarantee has been duly authorised by a resolution of the Board of Directors of ADCB dated 27 May, 2008.

Listing and admission to trading

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or before 23 June, 2008.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of ADCB and from the specified office of the Paying Agent for the time being in London:

- (a) the Memorandum and Articles of Association of ADCB Finance Cayman and the Memorandum and Articles of Association (with an English translation thereof) of ADCB;
- (b) the audited financial statements (in English) of ADCB in respect of the financial years ended 31 December, 2006 and 31 December, 2007, in each case together with the audit reports prepared in connection therewith. ADCB currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements (in English) of ADCB and the most recently published unaudited interim financial statements (if any and in English) of ADCB, in each case together with any audit or review reports prepared in connection therewith. ADCB Finance Cayman is not required by Cayman Islands law, and does not intend, to publish audited financial statements. ADCB currently prepares condensed unaudited consolidated interim accounts on a quarterly basis;
- (d) the Programme Agreement, the Agency Agreement, the Guarantee, each Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, prospectuses, information memoranda and supplements (including Final Terms, save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuers and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

- (g) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy L-1885 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of ADCB Finance Cayman since 12 May, 2008 (its date of incorporation) and there has been no material adverse change in the financial position or prospects of ADCB Finance Cayman since 12 May 2008.

There has been no significant change in the financial or trading position of the ADCB Group since 31 March, 2008 and there has been no material adverse change in the financial position or prospects of ADCB since 31 December, 2007.

Litigation

Neither ADCB, ADCB Finance Cayman nor any other member of the ADCB Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ADCB or ADCB Finance Cayman, as the case may be, is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of ADCB, ADCB Finance Cayman and/or the ADCB Group, as the case may be.

Auditors

The auditors of ADCB are Deloitte & Touche, Chartered Accountants, who have audited ADCB's accounts, without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December, 2007. The auditors of ADCB are not required to be a member of a professional body in the United Arab Emirates as such body does not exist there. However the auditors of ADCB are registered under the Register of Practicing Accountants at the UAE Ministry of Economy and Planning as required by the United Arab Emirates Federal Law No. 22 for the year 1995. The auditors of ADCB have no material interest in ADCB.

APPENDIX – FINANCIAL INFORMATION

Unaudited consolidated financial statements of ADCB for the three months ended 31 March, 2008	F-2
Auditors' report and consolidated financial statements of ADCB for the period ended 31 December, 2007	F-31
Auditors' report and consolidated financial statements of ADCB for the period ended 31 December, 2006	F-104

**ABU DHABI COMMERCIAL
BANK P.J.S.C.**

**Review report and interim
financial information for the
period ended March 31, 2008**

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Review report and interim financial information
for the period ended March 31, 2008**

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Abu Dhabi Commercial Bank P.J.S.C. (the "Bank") and its subsidiaries (together referred to as "the Group") as of March 31, 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the three months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting ("IAS 34")". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche



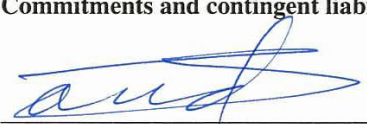

Ahmed Nimer
Registration Number 380
April 23, 2008



Audit . Tax . Consulting . Financial Advisory.

Member of
Deloitte Touche Tohmatsu

**Condensed consolidated balance sheet
as at March 31, 2008**

	Notes	As at March 31 2008 (unaudited) AED'000	As at December 31 2007 (audited) AED'000
ASSETS			
Cash and balances with Central Bank		12,976,923	15,657,588
Deposits and balances due from banks		10,027,964	6,030,364
Trading securities		112,641	122,433
Loans and advances, net	3	80,002,245	75,676,082
Derivative financial instruments	4	5,163,343	3,068,242
Investment securities	5	2,699,048	2,968,188
Investment properties		445,730	445,730
Other assets		2,068,757	1,752,721
Property and equipment, net		494,619	492,501
Total assets		113,991,270	106,213,849
LIABILITIES			
Due to banks		7,514,171	5,598,376
Customers' deposits		59,226,689	57,160,820
Short and medium term borrowings	6	29,122,001	27,370,264
Derivative financial instruments	4	4,063,826	2,413,269
Other liabilities		2,298,200	2,259,377
Total liabilities		102,224,887	94,802,106
EQUITY			
Share capital		4,000,000	4,000,000
Statutory and legal reserves		2,380,661	2,380,661
General and contingency reserves		2,150,000	2,150,000
Proposed dividends	7	1,210,000	1,210,000
Cumulative change in fair values		(183,297)	(94,854)
Retained earnings		2,107,233	1,651,705
Equity attributable to equity holders of the parent		11,664,597	11,297,512
Minority interest		101,786	114,231
Total equity		11,766,383	11,411,743
Total liabilities and equity		113,991,270	106,213,849
Commitments and contingent liabilities	14	54,137,055	55,604,642
 _____ Saeed Al Hajeri Chairman		 _____ Eirvin Knox Chief Executive Officer	

The accompanying notes form an integral part of these interim financial information.

**Condensed consolidated income statement (unaudited)
for the period ended March 31, 2008**

	Notes	<u>3 months ended March 31</u>	
		2008	2007
		AED'000	AED'000
Interest income	8	1,355,921	1,325,284
Interest expense	9	(849,698)	(794,021)
Net interest income		506,223	531,263
Net fee and commission income	10	262,557	159,783
Net gains from dealing in foreign currencies		79,345	9,927
Net gain on dealing in derivatives		53,027	9,418
Gain on trading and investment securities		7,265	446
Other operating income		12,601	6,555
Operating income		921,018	717,392
Staff expenses		(189,055)	(118,489)
Depreciation		(13,353)	(12,015)
Other operating expenses		(118,935)	(73,931)
Allowance for doubtful loans and advances, net of recoveries		(7,533)	(43,258)
Impairment losses on investment securities	11	(71,730)	-
Operating expenses		(400,606)	(247,693)
Profit from operations, before taxation		520,412	469,699
Overseas income tax (expense) / refund		(3,331)	504
Net profit for the period		517,081	470,203
Attributed to:			
Equity holders of the parent		459,887	456,700
Minority interest		57,194	13,503
Net profit for the period		517,081	470,203
Basic earnings per share (AED)	12	0.11	0.11

The accompanying notes form an integral part of these interim financial information.

ABU DHABI COMMERCIAL BANK P.J.S.C.

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**Condensed consolidated statement of changes in equity (unaudited)
for the period ended March 31, 2008**

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2007	4,000,000	1,013,972	969,185	1,925,000	150,000	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178
Net profit for the period	-	-	-	-	-	-	-	456,700	456,700	13,503	470,203
Dividends paid	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)	-	(1,210,000)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(48,982)	(48,982)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-
Net movement in cumulative changes in fair values of available for sale investments	-	-	-	-	-	-	-	1,374	1,374	-	1,374
Balance at March 31, 2007	4,000,000	1,013,972	969,185	1,925,000	150,000	-	52,270	1,800,966	9,911,393	30,321	9,941,714
Balance at January 1, 2008	4,000,000	1,212,724	1,167,937	2,000,000	150,000	1,210,000	(94,854)	1,651,705	11,297,512	114,231	11,411,743
Net profit for the period	-	-	-	-	-	-	-	459,887	459,887	57,194	517,081
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(69,639)	(69,639)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(1,024)	(1,024)	-	(1,024)
Movement in cash flow hedges	-	-	-	-	-	-	-	(3,335)	(3,335)	-	(3,335)
Net movement in cumulative changes in fair values of available for sale investments	-	-	-	-	-	-	(88,443)	-	(88,443)	-	(88,443)
Balance at March 31, 2008	4,000,000	1,212,724	1,167,937	2,000,000	150,000	1,210,000	(183,297)	2,107,233	11,664,597	101,786	11,766,383

The accompanying notes form an integral part of these interim financial information.

**Condensed consolidated statement of cash flows (unaudited)
for the period ended March 31, 2008**

	<u>3 months ended March 31</u>	
	2008 AED'000	2007 AED'000
OPERATING ACTIVITIES		
Net profit before taxation and minority interest	520,412	469,699
Adjustments for:		
Currency translation	(1,024)	1,374
Movement in cash flow hedges	(3,335)	-
Depreciation	13,353	12,015
Gain on disposal of property and equipment	-	(1)
Allowance for doubtful loans and advances	70,057	88,156
Recovery of allowance for doubtful loans and advances, net	(62,524)	(44,898)
Impairment losses on investment securities	71,730	-
Gain on sale of investment securities	(7,265)	(446)
Operating profit before changes in operating assets and liabilities	<u>601,404</u>	<u>525,899</u>
Decrease in due from banks	215,944	560,902
Increase in loans and advances	(4,333,696)	(1,913,441)
Decrease in trading investments	9,792	-
Increase / (decrease) in net trading derivative financial instruments	55,500	(22,267)
Increase in other assets	(316,036)	(452,232)
(Decrease)/increase in due to banks	(1,920,287)	470,676
Increase in customers' deposits	2,065,869	6,274,701
Increase in other liabilities	38,823	664,443
Cash (used in)/from operations	<u>(3,582,687)</u>	<u>6,108,681</u>
Directors' remuneration paid	-	(4,750)
Overseas taxation (paid)/refund	(3,331)	504
Net cash (used in)/ from operating activities	<u>(3,586,018)</u>	<u>6,104,435</u>
INVESTING ACTIVITIES		
Net sales of trading investments	-	1,926
Net sales of investment securities	116,232	449,717
Purchase of property and equipment, net of disposals	(15,471)	(39,048)
Net cash from investing activities	<u>100,761</u>	<u>412,595</u>
FINANCING ACTIVITIES		
Dividends paid to equity shareholders	-	(1,210,000)
Net proceeds from short and medium term borrowings	1,251,693	1,560,580
Dividends paid to minority shareholders	(69,639)	(48,982)
Net cash from financing activities	<u>1,182,054</u>	<u>301,598</u>
(Decrease)/increase in cash and cash equivalents	<u>(2,303,203)</u>	<u>6,818,628</u>
Cash and cash equivalents at January 1,	<u>17,851,889</u>	<u>1,436,830</u>
Cash and cash equivalents at March 31,	<u><u>15,548,686</u></u>	<u><u>8,255,458</u></u>

The accompanying notes form an integral part of these interim financial information.

**Notes to the interim financial information
for the period ended March 31, 2008**

1 General

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

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

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

2 Summary of significant accounting policies

Basis of preparation

These interim financial information are prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these interim financial information are consistent with those used in the audited annual consolidated financial statements for the year ended December 31, 2007.

The interim financial information are presented in UAE Dirhams (AED) since that is the currency in which the majority of the Bank’s transactions are denominated.

For the purpose of these interim financial information the Bank has adopted revised and amended standards issued by the International Accounting Standards Board (IASB) and the IFRIC that are relevant to its operations for the period beginning January 1, 2008. The adoption of these new and revised standards and Interpretations has not significantly resulted in changes to the Bank’s presentation and certain disclosures in the interim financial information.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

2 Summary of significant accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

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

Notes to the interim financial information
for the period ended March 31, 2008 (continued)

3 Loans and advances, net

	March 31 2008 AED'000 (unaudited)	December 31 2007 AED'000 (audited)
Overdrafts (Retail and Corporate)	15,258,223	14,021,744
Retail loans	7,925,590	7,122,069
Corporate loans	55,710,514	53,033,990
Credit cards	766,537	685,182
Other facilities	1,525,163	1,963,054
	<u>81,186,027</u>	<u>76,826,039</u>
Less: Allowance for impairment	(1,183,782)	(1,149,957)
	<u>80,002,245</u>	<u>75,676,082</u>

Loans and advances are summarised as follows:

	March 31 2008 AED'000 (unaudited)	December 31 2007 AED'000 (audited)
Performing loans	79,108,437	75,635,272
Other loans exceptionally monitored	319,046	135,352
Non performing loans	1,758,544	1,055,415
	<u>81,186,027</u>	<u>76,826,039</u>
Less: Allowance for impairment	(1,183,782)	(1,149,957)
	<u>80,002,245</u>	<u>75,676,082</u>

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 545,400 thousand (December 31, 2007 – AED 609,480 thousand). This loan arose as a result of the Government acquiring certain non-performing loans which were previously indemnified by the Government through a guarantee.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

3 Loans and advances, net (continued)

During the period, the Bank has changed the risk classification of loans and advances as follows:

Risk Category	March 31, 2008	December 31, 2007
Performing loans	less than 30 days	less than 90 days
other loans exceptionally monitored	between 30 and 90 days	between 90 and 180 days
Non performing loans	over 90 days	over 180 days

These changes have been effected to comply with the requirements of the Central Bank of United Arab Emirates and Basel II guidelines.

Notes to the interim financial information
for the period ended March 31, 2008 (continued)

3 Loans and advances, net (continued)

	Overdrafts			Retail			Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000					
At March 31, 2008										
Performing loans	745,437	13,275,308	3,529,978	1,317,308	2,680,534	688,772	55,345,937	1,525,163	79,108,437	
Other loans exceptionally monitored	-	314,045	115	674	-	-	4,212	-	319,046	
Non performing loans	4,527	918,906	354,010	19,131	23,840	77,765	360,365	-	1,758,544	
	<u>749,964</u>	<u>14,508,259</u>	<u>3,884,103</u>	<u>1,337,113</u>	<u>2,704,374</u>	<u>766,537</u>	<u>55,710,514</u>	<u>1,525,163</u>	<u>81,186,027</u>	
	Overdrafts			Retail			Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000					
At December 31, 2007										
Performing loans	528,801	12,891,036	3,375,165	1,127,343	2,277,135	617,549	52,855,189	1,963,054	75,635,272	
Other loans exceptionally monitored	80	79,208	9,302	9,984	10,282	-	26,496	-	135,352	
Non performing loans	7,677	514,942	259,916	25,784	27,158	67,633	152,305	-	1,055,415	
	<u>536,558</u>	<u>13,485,186</u>	<u>3,644,383</u>	<u>1,163,111</u>	<u>2,314,575</u>	<u>685,182</u>	<u>53,033,990</u>	<u>1,963,054</u>	<u>76,826,039</u>	

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

3 Loans and advances, net (continued)

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

	March 31, 2008 (unaudited)			December 31, 2007 (audited)		
	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	716,492	433,465	1,149,957	659,229	323,653	982,882
Charge for the period / year	58,405	11,652	70,057	177,861	117,439	295,300
Recoveries	(62,524)	-	(62,524)	(151,937)	-	(151,937)
Net amounts written back/(off)	43,229	(16,513)	26,716	27,160	(7,855)	19,305
Currency translation	(398)	(26)	(424)	4,179	228	4,407
Balance at	755,204	428,578	1,183,782	716,492	433,465	1,149,957

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

	March 31, 2008 (unaudited)			December 31, 2007 (audited)		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Economic sector						
Agriculture	14,823	-	14,823	14,612	-	14,612
Energy	291,376	754,965	1,046,341	215,039	701,989	917,028
Trading	2,660,976	14,240	2,675,216	2,936,837	17,662	2,954,499
Construction	4,919,852	280,762	5,200,614	5,421,476	183,011	5,604,487
Transport	2,034,346	1,263,717	3,298,063	2,037,553	1,286,206	3,323,759
Personal	5,965,910	1,064,139	7,030,049	7,597,731	965,455	8,563,186
Personal – Retail loans	9,317,771	19,378	9,337,149	7,489,192	6,660	7,495,852
Personal – Loans against shares	12,322,334	-	12,322,334	10,479,289	-	10,479,289
Government	1,281,996	62	1,282,058	1,740,981	-	1,740,981
Financial Institution	15,989,730	1,783,785	17,773,515	14,249,678	2,111,759	16,361,437
Manufacturing	1,322,755	1,087,764	2,410,519	1,449,994	1,147,421	2,597,415
Services	13,898,452	3,766,768	17,665,220	12,592,077	3,120,556	15,712,633
Others	1,042,111	88,015	1,130,126	1,024,131	36,730	1,060,861
Total	71,062,432	10,123,595	81,186,027	67,248,590	9,577,449	76,826,039
Less: Allowance for impairment			(1,183,782)			(1,149,957)
Total			80,002,245			75,676,082

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

4 Derivative financial instruments

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

	<u>Fair values</u>	
	Assets AED'000	Liabilities AED'000
At March 31, 2008 (unaudited)		
Derivatives held for trading		
Forward foreign exchange contracts	196,258	241,638
Interest rate swaps and forward rate agreements	2,563,131	2,666,940
Options	529,176	501,299
Futures	6,375	674
Commodity forwards	551,520	528,427
Energy swaps	125,039	124,848
	<hr/>	<hr/>
	3,971,499	4,063,826
Derivatives held for hedging	1,191,844	-
	<hr/>	<hr/>
	5,163,343	4,063,826
	<hr/> <hr/>	<hr/> <hr/>

	<u>Fair values</u>	
	Assets AED'000	Liabilities AED'000
At December 31, 2007 (audited)		
Derivatives held for trading		
Forward foreign exchange contracts	126,498	171,556
Interest rate swaps and forward rate agreements	1,599,877	1,641,097
Options	414,199	387,675
Futures	1,826	1,216
Commodity forwards	228,794	206,477
Energy swaps	5,248	5,248
	<hr/>	<hr/>
	2,376,442	2,413,269
Derivatives held for hedging	691,800	-
	<hr/>	<hr/>
	3,068,242	2,413,269
	<hr/> <hr/>	<hr/> <hr/>

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

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

4 Derivative financial instruments (continued)

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

Derivative related credit risk

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

5 Investment securities

	March 31 2008 AED'000 (unaudited)	December 31 2007 AED'000 (audited)
Available for sale investments		
Quoted:		
Floating rate notes (FRN)	748,220	788,522
Collateralised debt obligations (CDO)	743,844	649,720
Equity instruments	130,726	128,399
UAE bonds	846,904	1,016,780
Others	225,712	200,806
	<hr/> 2,695,406 <hr/>	<hr/> 2,784,227 <hr/>

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

5 Investment securities (continued)

	March 31 2008 AED'000 (unaudited)	December 31 2007 AED'000 (audited)
Unquoted:		
Floating rate notes (FRN)	181,806	180,205
Collateralised debt obligations (CDO)	-	36,730
Equity instruments	246,286	246,286
Others	30,625	30,625
	<hr/> 458,717	<hr/> 493,846
Gross total	3,154,123	3,278,073
Allowance for impairment	(469,815)	(378,512)
	<hr/> 2,684,308	<hr/> 2,899,561
Held to maturity		
Floating rate notes (FRN)	110,190	183,650
Allowance for impairment	(95,450)	(115,023)
	<hr/> 14,740	<hr/> 68,627
	<hr/> 2,699,048	<hr/> 2,968,188

The fair value of held to maturity investments at March 31, 2008 approximates its carrying value less impairment allowance.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

5 Investment securities (continued)

The movement in investment securities is summarised as follows:

	Available for sale AED'000	Held to maturity AED'000	Total AED'000
At January 1, 2008	2,899,561	68,627	2,968,188
Additions	368,817	-	368,817
Transfer	53,887	(53,887)	-
Disposals and fair value adjustments	(566,227)	-	(566,227)
Impairment losses	(71,730)	-	(71,730)
At March 31, 2008	2,684,308	14,740	2,699,048

The following is the movement in the allowance for impairment:

	March 31 2008 AED'000 (unaudited)	December 31 2007 AED'000 (audited)
At January 1	(493,535)	-
Provided on Available for Sale investments	(71,730)	(378,512)
Provided on Held to Maturity investments	-	(115,023)
Transfer to Available for Sale investments	(19,573)	-
Transfer from Held to Maturity investments	19,573	-
Balance at	(565,265)	(493,535)

The investment securities include AED 1,682,546 thousand in Structured Investment Vehicles (SIVs) and other Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), which are dependent on the performance of collateral located outside UAE, primarily assets in the USA and Western Europe. The Bank's exposure in SIVs and Asset Backed Securities (ABS) CDOs a total of AED 883,130 thousand are negatively impacted by the downfall in USA sub prime and the subsequent liquidity crisis. The Bank has made portfolio provisions for impairment amounting to AED 565,265 thousand against the exposed SIVs and ABS CDOs.

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

Notes to the interim financial information
for the period ended March 31, 2008 (continued)

6 Short and medium term borrowings

The details of short and medium term borrowings as at March 31, 2008 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	-	168,389	168,389
	Euro (EUR)	-	290,240	-	290,240
	Hong Kong Dollar (HKD)	-	47,181	94,363	141,544
	Japanese Yen (JPY)	-	-	183,899	183,899
	Pound Sterling (GBP)	-	-	3,663,634	3,663,634
	Slovak Koruna (SKK)	-	-	133,473	133,473
	South African Rand (ZAR)	-	-	45,291	45,291
	Swiss Franc (CHF)	191,648	552,830	1,105,659	1,850,137
	Turkish Lira (TRL)	-	-	104,971	104,971
	UAE Dirham (AED)	2,595,000	2,765,000	1,753,000	7,113,000
	US Dollar (US\$)	275,475	3,893,380	110,190	4,279,045
			3,062,123	7,548,631	7,362,869
Syndicated loan	US Dollar (US\$)	-	3,673,000	5,509,500	9,182,500
Subordinated floating rate notes	US Dollar (US\$)	-	-	1,469,200	1,469,200
		3,062,123	11,221,631	14,341,569	28,625,323
Fair value adjustment of cross currency swap					496,678
					29,122,001

Notes to the interim financial information
for the period ended March 31, 2008 (continued)

6 Short and medium term borrowings (continued)

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

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

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

6 Short and medium term borrowings (continued)

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

<u>Currency</u>	<u>Within 1 year</u>	<u>1-3 years</u>	<u>Over 3 years</u>
AUD	-	-	3 months AUD-BBSW plus 30 basis points
EUR	-	3 months LIBOR plus 12 basis points	-
HKD	-	3 months HKD offer rate plus 35 basis points	3 months HKD offer rate plus 29 basis points
JPY	-	-	Fixed rate of 1.66% p.a.
GBP	-	-	Fixed rate of 5.625% p.a.
SKK	-	-	3 months BRIBOR plus 11 basis points
ZAR	-	-	3 months JIBAR plus 41 basis points
CHF	3 months LIBOR plus 70 basis points	3 months LIBOR plus 10 basis points	Fixed rate of 2.76% p.a.
TRY	-	-	Fixed rate of 12.75% p.a.
AED	3 months EIBOR plus 0 to 10 basis points & fixed rates of 4.855% to 5% p.a.	3 months EIBOR plus 22 to 52 basis points	Fixed rate of 6% p.a.
USD	3 months LIBOR plus 5 to 24 basis points	Fixed rate of 5.25% p.a. & 3 months LIBOR 30 to 35 basis points	Fixed rate of 5.3875% p.a. & 3 months LIBOR plus 30 basis points

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

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

The subordinated floating rate notes were obtained from financial institutions outside of UAE and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (note 17) if these are not redeemed during 2011. This has been approved by the Central Bank of United Arab Emirates.

The Bank also has an unsecured standby facility of US\$ 725,000 thousand (December 31, 2007 – US\$ 850,000 thousand) from a consortium of banks with a drawdown period of one year.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

7 Proposed dividends

Following the Annual General Meeting held on April 21, 2008, the shareholders approved the distribution of proposed dividends amounting to AED 1,210,000 thousand to be 10% of the paid up capital in cash amounting to AED 400,000 thousand and 20.25% of the paid up capital as bonus shares amounting to AED 810,000 thousand.

8 Interest income

	March 31 2008 (unaudited) AED'000	March 31 2007 (unaudited) AED'000
Loans and advances to banks	141,053	133,583
Loans and advances to customers	1,179,580	1,138,396
Investment securities	35,288	53,305
	<u>1,355,921</u>	<u>1,325,284</u>

Interest income from investment securities includes an amount of AED 382 thousand (March 31, 2007 – AED 4,756 thousand) generated from Held to Maturity investments which are carried at amortised cost.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

9 Interest expense

	March 31 2008 (unaudited) AED'000	March 31 2007 (unaudited) AED'000
Deposits from banks	63,491	102,797
Deposits from customers	448,606	450,106
Debt securities issued and subordinated liabilities	337,601	241,118
	<u>849,698</u>	<u>794,021</u>

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

10 Net fee and commission income

	March 31 2008 (unaudited) AED'000	March 31 2007 (unaudited) AED'000
Fee and commission income		
Retail banking fees	96,758	63,826
Corporate banking fees	89,309	65,568
Investment banking fees	61,348	20,357
Brokerage fees	13,712	3,229
Fee from trust and other fiduciary activities	14,306	9,844
Other fees	1,444	3,148
Total fee and commission income	<u>276,877</u>	<u>165,972</u>
Fee and commission expenses	(14,320)	(6,189)
Net fee and commission income	<u>262,557</u>	<u>159,783</u>

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

11 Impairment losses on investment securities

	March 31 2008 (unaudited) AED '000	March 31 2007 (unaudited) AED '000
Available for sale category	71,730	-

The impairment losses represent the permanent loss identified by the Bank on its investments in Collateralized Debt Obligations and Special Investment Vehicles which have exposures outside the UAE. The impairment losses have been estimated by the Banks' management based on the present market and the expected economical conditions of the underlying investments.

12 Basic earnings per share

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

	March 31 2008 (unaudited)	March 31 2007 (unaudited)
Net profit for 3 months attributable to the equity holders of the Bank (AED'000)	459,887	456,700
Weighted average number of shares in issue throughout the period (000's)	4,000,000	4,000,000
Basic earnings per share (AED)	0.11	0.11

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

13 Seasonality of results

No income of seasonal nature was recorded in the statement of income for the three months period ended March 31, 2008 and 2007.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

14 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at:

	March 31 2008 (unaudited) AED'000	December 31 2007 (audited) AED'000
Commitments on behalf of customers		
Letters of credit	6,476,361	5,893,930
Guarantees	14,410,240	14,760,040
Irrevocable commitments to extend credit	29,960,688	31,578,427
Credit default swaps	3,111,495	3,221,685
	<hr/>	<hr/>
	53,958,784	55,454,082
Others		
Commitments for future capital expenditure	84,691	56,980
Commitments to invest in investment securities	93,580	93,580
	<hr/>	<hr/>
	54,137,055	55,604,642
	<hr/> <hr/>	<hr/> <hr/>

15 Business segments

The Bank's products and services can be categorised into the following business segments:

Commercial banking

This involves provision of loans and other credit facilities, deposits and current accounts for the Bank's customers.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

15 Business segments (continued)

Investment banking

This involves the management of the Bank's investment portfolio and treasury activities.

Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds.

	March 31, 2008 (unaudited)		
	AED'000		
	Commercial banking	Investment banking	Total
Total assets	82,520,796	31,470,474	113,991,270
Total liabilities	68,644,272	33,580,615	102,224,887
Total operating income	816,665	104,353	921,018
Segment results and profit from operations before taxation	498,085	22,327	520,412
Minority interest	-	(57,194)	(57,194)
Net profit before tax	498,085	(34,867)	463,218
Overseas tax expense - unallocated			(3,331)
Net profit for the period			459,887
Capital expenditure during the period	15,471	-	15,471
Depreciation expense during the period	12,346	1,007	13,353

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

15 Business segments (continued)

	March 31, 2007 (unaudited)		Total
	Commercial banking	Investment Banking	
Total assets	66,086,033	21,815,615	87,901,648
Total liabilities	55,964,834	21,995,100	77,959,934
Total operating income	630,986	86,406	717,392
Segment results and profit from operations before taxation	399,644	70,055	469,699
Minority interest	-	(13,503)	(13,503)
Net profit before tax	399,644	56,552	456,196
Overseas tax refund - unallocated			504
Net profit for the period			456,700
Capital expenditure during the period	36,956	2,092	39,048
Depreciation expense during the period	10,896	1,119	12,015

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

16 Foreign exchange risk

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

	March 31 2008 (unaudited) AED'000 equivalent long/(short)	December 31 2007 (audited) AED'000 equivalent long/(short)
US Dollar	(6,375,154)	(1,346,463)
Indian Rupees	88,797	73,854
Omani Riyal	1,780	1,319
Pound Sterling	4,346	(1,803)
Euro	15,231	2,348
Bahraini Dinar	(613)	(445)
Saudi Riyal	(925)	(1,082)
Japanese Yen	(7,158)	(1,308)
Australian Dollar	(3,283)	(2,958)
Swiss Frank	206	899
Malaysian Ringgit (refer note 18)	4,463,149	(10)
Qatari Riyal	1,022	492
Others	(1,118)	(603)

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

17 Capital adequacy

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

	March 31 2008 (unaudited) AED'000	December 31 2007 (audited) AED'000
Tier 1 capital		
Share capital	4,000,000	4,000,000
Statutory and legal reserves	2,380,661	2,380,661
General and contingency reserves	2,150,000	2,150,000
Proposed dividends	1,210,000	1,210,000
Retained earnings	2,107,233	1,651,705
Minority interests in equity of subsidiaries	101,786	114,231
	<u>11,949,680</u>	<u>11,506,597</u>
Tier 2 capital		
Subordinated floating rate notes (Note 9)	1,469,200	1,469,200
	<u>13,418,880</u>	<u>12,975,797</u>
Total qualifying capital		
Cumulative change in fair values	(183,297)	(94,854)
Total regulatory capital	<u>13,235,583</u>	<u>12,880,943</u>
Risk-weighted assets:		
On-balance sheet	81,792,831	80,607,717
Off-balance sheet	14,066,238	15,077,265
	<u>95,859,069</u>	<u>95,684,982</u>
Total risk-weighted assets		
Capital adequacy ratio	<u>13.81%</u>	<u>13.46%</u>

The capital adequacy ratio was above the minimum requirement of 10% stipulated by UAE Central Bank as of March 31, 2008 and December 31, 2007.

**Notes to the interim financial information
for the period ended March 31, 2008 (continued)**

18 Post balance sheet event

Subsequent to the balance sheet date, the Bank has announced its intention to purchase 25% of the issued share capital of RHB Capital Limited, Malaysia through its Special Purpose Entity ADCB (Holdings) Malaysia Sdn Berhad.

19 Comparative figures

Certain comparative figures were reclassified to conform with current period presentation.

**ABU DHABI COMMERCIAL
BANK P.J.S.C.**

**Report and consolidated financial
statements for the year
ended December 31, 2007**

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Report and consolidated financial statements for
the year ended December 31, 2007**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 71.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Saba Y. Sindaha

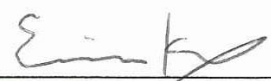


Saba Y. Sindaha
Registration Number 410
February 4, 2008

**Consolidated balance sheet
as at December 31, 2007**

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


Saeed Al Hajeri
Chairman


Eirvin Knox
Chief Executive Officer

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

**Consolidated income statement
for the year ended December 31, 2007**

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

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

**Consolidated statement of changes in equity
for the year ended December 31, 2007**

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

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

**Consolidated statement of changes in equity
for the year ended December 31, 2007 (continued)**

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2006		4,000,000	805,810	761,023	1,850,000	150,000	-	75,881	966,216	8,608,930	9,483	8,618,413
Dividends paid		-	-	-	-	-	-	-	-	-	(9,265)	(9,265)
Net profit for the year 2006		-	-	-	-	-	-	-	2,081,617	2,081,617	65,582	2,147,199
Exchange difference arising on translation of foreign operations		-	-	-	-	-	-	-	1,087	1,087	-	1,087
Transfer to statutory reserve	18	-	208,162	-	-	-	-	-	(208,162)	-	-	-
Transfer to legal reserve	18	-	-	208,162	-	-	-	-	(208,162)	-	-	-
Transfer to general reserve	18	-	-	-	75,000	-	-	-	(75,000)	-	-	-
Increase/decrease in fair value of available for sale investments		-	-	-	-	-	-	(28,401)	-	(28,401)	-	(28,401)
Board of directors' remuneration		-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised gain on sale of available for sale investments		-	-	-	-	-	-	(151)	-	(151)	-	(151)
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	46	46	-	46
Proposed cash dividends	19	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2006		4,000,000	1,013,972	969,185	1,925,000	150,000	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178

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

**Consolidated statement of cash flows
for the year ended December 31, 2007**

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007****1 Activities**

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

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

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

2 Significant accounting policies

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

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

Statement of compliance

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

Adoption of new and revised standards

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

2 Significant accounting policies (continued)

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

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

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

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

Basis of measurement

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

2 Significant accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Due from banks**

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

Investments***Trading securities***

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

Investment securities

These are classified as follows:

- Held to maturity
- Available for sale

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

Held to maturity

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Investments (continued)***Available for sale*

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

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

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

Fair values

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Loans and advances

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Impairment of financial assets**

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

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

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

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

Impairment of tangible and intangible assets

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Impairment of tangible and intangible assets (continued)**

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

Loan impairment***Individually assessed loans***

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

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

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

Collectively assessed loans

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Loan impairment (continued)***Performing loans*

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

Retail loans with common features and which are not individually significant

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

Renegotiated loans

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

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

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

Collateral pending sale

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Derivative financial instruments**

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

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

2 Significant accounting policies (continued)

Derivative financial instruments (continued)

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

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

Investment properties

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

Property and equipment

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Capital work in progress**

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

Other financial liabilities

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

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

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

Customers' deposits and short and medium term borrowings

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

Employees' end of service benefits

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

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

Provisions

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Repurchase and resale agreements**

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

Acceptances

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

Financial guarantees

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

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

Recognition and de-recognition of financial instruments

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Offsetting of financial assets and liabilities**

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

Fiduciary assets

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

Taxation

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

Revenue and expense recognition

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****2 Significant accounting policies (continued)****Foreign currencies**

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

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

Trade and settlement date accounting

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

3 Critical accounting judgments and key sources of estimation of uncertainty

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

Loans and advances

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

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

Individually assessed loans

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

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

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

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

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

Collectively assessed loans

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****3 Critical accounting judgments and key sources of estimation of uncertainty
(continued)****Fair value of unquoted financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however; areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of available-for-sale investments

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

Derivative financial instruments

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

- a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

4 Cash and balances with Central Banks

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

5 Deposits and balances due from banks

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

6 Trading securities

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)

7 Loans and advances, net

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

Loans and advances are summarised as follows:

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

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 609,480 thousand (2006 – AED 667,680 thousand). This loan arose as a result of the Government acquiring certain non-performing loans which were previously indemnified by the Government through a guarantee.

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

7 Loans and advances, net (continued)

	Overdrafts			Retail			Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000					
At December 31, 2007										
Performing loans	528,801	12,891,036	3,375,165	1,127,343	2,277,135	617,549	52,855,189	1,963,054	75,635,272	
Other loans exceptionally monitored	80	79,208	9,302	9,984	10,282	-	26,496	-	135,352	
Non performing loans	7,677	514,942	259,916	25,784	27,158	67,633	152,305	-	1,055,415	
	<u>536,558</u>	<u>13,485,186</u>	<u>3,644,383</u>	<u>1,163,111</u>	<u>2,314,575</u>	<u>685,182</u>	<u>53,033,990</u>	<u>1,963,054</u>	<u>76,826,039</u>	
	Overdrafts			Retail			Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000					
At December 31, 2006										
Performing loans	90,382	8,457,185	2,978,148	798,848	1,030,397	411,947	39,044,784	2,662,241	55,473,932	
Other loans exceptionally monitored	1,298	6,402,353	7,064	7,367	5,594	-	332,078	-	6,755,754	
Non performing loans	6,640	480,913	244,423	3,460	10,565	47,458	384,386	-	1,177,845	
	<u>98,320</u>	<u>15,340,451</u>	<u>3,229,635</u>	<u>809,675</u>	<u>1,046,556</u>	<u>459,405</u>	<u>39,761,248</u>	<u>2,662,241</u>	<u>63,407,531</u>	

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

7 Loans and advances, net (continued)

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****8 Derivative financial instruments**

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

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

Forward currency transactions

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

Swap transactions

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

Option transactions

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

8 Derivative financial instruments (continued)

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****8 Derivative financial instruments (continued)****Derivative related credit risk**

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

9 Investment securities

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

9 Investment securities (continued)

The movement in investment securities is summarised as follows:

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

The following is the movement in the allowance for impairment:

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****9 Investment securities (continued)**

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

9 Investment securities (continued)

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

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

10 Investment properties

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****11 Other assets**

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

12 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2006	206,082	28,997	58,181	139,430	184,738	617,428
Exchange difference	86	1	121	-	-	208
Additions during the year	1,930	476	2,609	4,449	140,312	149,776
Transfers	234,228	1,470	18,363	27,641	(281,702)	-
Disposals	-	(4)	(181)	-	-	(185)
At January 1, 2007	442,326	30,940	79,093	171,520	43,348	767,227
Exchange difference	-	593	751	50	-	1,394
Additions during the year	20,328	668	4,394	6,444	61,192	93,026
Transfers	(48,978)	24,935	8,822	13,158	(62,770)	(64,833)
Transfer to expenses	-	-	-	-	(2,511)	(2,511)
Disposals	(500)	-	-	-	-	(500)
At December 31, 2007	413,176	57,136	93,060	191,172	39,259	793,803
Accumulated depreciation						
At January 1, 2006	101,361	11,671	44,660	56,544	-	214,236
Exchange difference	2	2	74	-	-	78
Charge for the year	14,612	2,828	6,752	16,872	-	41,064
Disposals	-	(2)	(173)	-	-	(175)
At January 1, 2007	115,975	14,499	51,313	73,416	-	255,203
Exchange difference	-	22	674	37	-	733
Charge for the year	17,633	3,111	9,341	20,167	-	50,252
Transfers	(4,540)	-	-	-	-	(4,540)
Disposals	(346)	-	-	-	-	(346)
At December 31, 2007	128,722	17,632	61,328	93,620	-	301,302
Carrying amount						
At December 31, 2007	284,454	39,504	31,732	97,552	39,259	492,501
At December 31, 2006	326,351	16,441	27,780	98,104	43,348	512,024

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

13 Due to banks

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

14 Customers' deposits

By category :

Call and demand deposits	13,347,838	9,725,428
Savings deposits	1,114,235	1,007,336
Time deposits	34,206,630	27,736,917
Long term government deposits	609,480	667,680
Islamic product related deposits	4,660,216	35,602
Euro commercial paper	3,222,421	4,223,888
	<hr/>	<hr/>
	57,160,820	43,396,851
	<hr/> <hr/>	<hr/> <hr/>

By sector :

Retail	17,755,863	14,621,054
Corporate	31,096,356	23,361,607
Government	8,308,601	5,414,190
	<hr/>	<hr/>
	57,160,820	43,396,851
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

15 Short and medium term borrowings (continued)

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

15 Short and medium term borrowings (continued)

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

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

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

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

The subordinated floating rate notes were obtained from financial institutions outside of UAE and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (note 37) if these are not redeemed during 2011. This has been approved by the Central Bank of United Arab Emirates.

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

16 Other liabilities

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

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

17 Share capital

	Authorised AED'000	Issued and fully paid	
		2007 AED'000	2006 AED'000
Ordinary shares of AED 1 each	4,000,000	4,000,000	4,000,000
	<u>4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
		2006	
	2007	Number of shares	AED'000
	Number of shares	AED'000	
As of December 31	4,000,000,000	4,000,000	4,000,000
	<u>4,000,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

18 Statutory and other reserves

Statutory reserve

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

Legal reserve

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

General reserve

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

Contingency reserve

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

19 Proposed dividends

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

20 Interest income

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

21 Interest expense

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

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

22 Net fee and commission income

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

23 Net gains from dealing in foreign currencies

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

24 Gain/(loss) on trading and investment securities

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

25 Basic earnings per share

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

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

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

26 Taxation

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

27 Cash and cash equivalents

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

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

28 Related party transactions

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

28 Related party transactions (continued)

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

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

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

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

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

	2007 AED'000	2006 AED'000
Short term benefits	<u>36,102</u>	<u>32,814</u>

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

29 Commitments and contingent liabilities

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

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

Credit-related commitments

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

30 Segmental information

Primary segment information

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

Segmental information for the year was as follows:

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

30 Segmental information (continued)

Secondary segment information

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****31 Credit risk**

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

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

Management of credit risk

The Bank's credit risk management framework includes:

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****31 Credit risk (continued)**

For details of the composition of the loans and advances portfolio refer to Note 7. Information on credit risk relating to derivative instruments is provided in Note 8.

Credit risk measurement

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

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

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

Risk limit control and mitigation policies

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

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

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

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

(a) Collateral

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

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

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

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

(c) Master netting arrangements

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(c) Master netting arrangements (continued)

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

32 Concentration of assets, liabilities and off balance sheet items

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****33 Interest rate risk**

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

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

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

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

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

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.
**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**
33 Interest rate risk (continued)

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

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

33 Interest rate risk (continued)

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

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	-	-	-	-	-	-	1,898,457	1,898,457
Deposits and balances due from banks	4.70	9,876,906	8,380	127,605	16,341	-	35,977	10,065,209
Trading securities	-	-	-	-	-	-	77,630	77,630
Loans and advances, net	6.87	44,640,980	7,783,135	856,983	757,367	7,270,424	1,115,760	62,424,649
Derivative financial instruments	-	727,275	130,618	30,070	78,979	31,602	-	998,544
Investment securities	6.91	1,886,210	439,046	56,171	1,826	1,101,053	216,438	3,700,744
Other assets	-	-	-	-	-	-	1,411,121	1,411,121
Property and equipment, net	-	-	-	-	-	-	512,024	512,024
Total assets		57,131,371	8,361,179	1,070,829	854,513	8,403,079	5,267,407	81,088,378
Liabilities and equity								
Due to banks	4.45	7,844,420	31,329	-	-	-	94,438	7,970,187
Customers' deposits	3.75	32,121,554	1,473,732	1,710,549	222,275	667,680	7,201,061	43,396,851
Short and medium term borrowings	5.25	10,350,271	2,445,427	3,814,496	-	-	-	16,610,194
Derivative financial instruments	-	665,998	43,963	23,819	42,037	30,216	-	806,033
Other liabilities	-	-	-	-	-	-	1,580,935	1,580,935
Equity	-	-	-	-	-	-	10,724,178	10,724,178
Total liabilities and equity		50,982,243	3,994,451	5,548,864	264,312	697,896	19,600,612	81,088,378
On-balance sheet gap		6,149,128	4,366,728	(4,478,035)	590,201	7,705,183	(14,333,205)	-
Off-balance sheet gap		75,296	(183,650)	73,460	89,989	(55,095)	-	-
Total interest rate sensitivity gap		6,224,424	4,183,078	(4,404,575)	680,190	7,650,088	(14,333,205)	-
Cumulative interest rate sensitivity gap		6,224,424	10,407,502	6,002,927	6,683,117	14,333,205	-	-

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****34 Liquidity risk**

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

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

Liquidity risk management process

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

34 Liquidity risk (continued)

Liquidity risk management process (continued)

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

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

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

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

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

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

Funding approach

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2007 was as follows:

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

34 Liquidity risk (continued)

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

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	1,898,457	1,898,457	-	-	-	-
Deposits and balances due from banks	10,065,209	7,331,051	2,590,212	127,605	16,341	-
Trading securities	77,630	77,630	-	-	-	-
Loans and advances, net	62,424,649	21,309,974	3,706,877	3,561,742	7,013,558	26,832,498
Derivative financial instruments	998,544	53,893	37,197	31,925	319,235	556,294
Investment securities	3,700,744	260,324	21,676	92,903	942,492	2,383,349
Other assets	1,411,121	1,411,121	-	-	-	-
Property and equipment, net	512,024	-	-	-	-	512,024
Total assets	81,088,378	32,342,450	6,355,962	3,814,175	8,291,626	30,284,165
Liabilities and Equity						
Due to banks	7,970,187	7,992,678	161,169	-	16,340	-
Customers' deposits	43,396,851	37,048,041	2,462,020	2,996,099	192,906	697,785
Short and medium term borrowings	16,610,194	284,836	102,318	628,994	944,187	14,649,859
Derivative financial instruments	806,033	53,593	36,958	23,819	140,981	550,682
Other liabilities	1,580,935	1,580,935	-	-	-	-
Equity	10,724,178	1,248,982	-	-	-	9,475,196
Total liabilities and equity	81,088,378	48,009,065	2,762,465	3,648,912	1,294,414	25,373,522
Liquidity gap	-	(15,666,615)	3,593,497	165,263	6,997,212	4,910,643
Cumulative liquidity gap	-	(15,666,615)	(12,073,118)	(11,907,855)	(4,910,643)	-

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

35 Foreign exchange risk

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

35 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2007:

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

35 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2006:

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****36 Market risk**

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

Market price risk

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

Management of market risk

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****36 Market risk (continued)****Risk identification and classification**

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

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

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

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

Trading risk

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

Non-trading risk

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

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

Risk measurement

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

- Non-statistical risk measures
- Sensitivity analysis

Non statistical risk measures

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

36 Market risk (continued)

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

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

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

Market risk – Trading portfolio

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

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

Interest rate risk

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

36 Market risk (continued)

Market risk – Trading portfolio (continued)

Currency wise

The following table depicts Portfolio Sensitivity for Foreign Exchange:

Price Shock in Percentage (AED '000)

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

Price Shock in Percentage (AED '000):

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

Market risk –Non trading portfolio

Interest rate risk

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)****36 Market risk (continued)****Operational risk**

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

Equity price risk

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

37 Capital adequacy and capital management

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

Capital management process

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

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

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

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

The Bank's regulatory capital is divided into two tiers:

- a) Tier 1 Capital
- b) Tier 2 Capital

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

37 Capital adequacy and capital management (continued)

Capital adequacy ratio

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)**

38 Foreign currency balances

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

39 Trust activities

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

40 Comparative figures

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

41 Approval of the consolidated financial statements

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

**ABU DHABI COMMERCIAL
BANK P.J.S.C.**

**Report and consolidated financial
statements for the year
ended December 31, 2006**

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Report and consolidated financial statements for
the year ended December 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 50.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

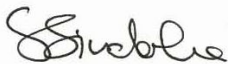
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.



Saba Y. Sindaha
Registration Number 410
January 21, 2007



**Consolidated balance sheet
as at December 31, 2006**

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


Saeed Al Hajeri
Chairman


Eirvin Knox
Chief Executive Officer

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

**Consolidated income statement
for the year ended December 31, 2006**

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

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

Consolidated statement of changes in equity
for the year ended December 31, 2006

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

**Consolidated statement of changes in shareholders' equity
for the year ended December 31, 2006 (continued)**

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed bonus share issue AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2006	17	4,000,000	805,810	761,023	1,850,000	150,000	-	-	75,981	966,216	8,608,930	9,483	8,618,413
Dividends paid		-	-	-	-	-	-	-	-	-	-	(9,265)	(9,265)
Net profit for the year 2006		-	-	-	-	-	-	-	-	2,081,617	2,081,617	65,582	2,147,199
Difference arising on translation of the operating assets and liabilities of overseas branches		-	-	-	-	-	-	-	-	1,087	1,087	-	1,087
Transfer to statutory reserve	16	-	208,162	-	-	-	-	-	-	(208,162)	-	-	-
Transfer to legal reserve	16	-	-	208,162	-	-	-	-	-	(208,162)	-	-	-
Transfer to general reserve	16	-	-	-	75,000	-	-	-	-	(75,000)	-	-	-
Increase/decrease in fair value of available for sale investments		-	-	-	-	-	-	-	(28,401)	-	(28,401)	-	(28,401)
Board of directors' remuneration		-	-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised gain on sale of available for sale investments		-	-	-	-	-	-	-	(151)	-	(151)	-	(151)
Realised loss on sale of available for sale investments (previously included in retained earning on adoption of IAS 39)		-	-	-	-	-	-	-	-	46	46	-	46
Proposed cash dividends	17	-	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2006		4,000,000	1,013,972	969,185	1,925,000	150,000	-	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178

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

**Consolidated statement of cash flows
for the year ended December 31, 2006**

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006****1 Activities**

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

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

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

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

2 Summary of significant accounting policies**Basis of preparation**

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

Adoption of new and revised standards

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

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

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

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

The significant accounting policies adopted are as follows:

Accounting convention

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

Due from banks

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

Investments

Trading investments

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

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale

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

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

Held to maturity

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)****2 Summary of significant accounting policies (continued)****Investments (continued)***Available for sale*

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

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

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

Loans and advances

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

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

Loan impairment*Individually assessed loans*

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Loan impairment (continued)

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

Collectively assessed loans

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

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

Performing loans

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

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

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

Renegotiated loans

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

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

Capital work in progress

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

Collateral pending sale

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

Taxation

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

Provisions

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)****2 Summary of significant accounting policies (continued)****Deposits**

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

Fiduciary assets

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

Revenue and expense recognition

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

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

Foreign currencies

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)****2 Summary of significant accounting policies (continued)****Cash and cash equivalents**

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

Repurchase and resale agreements

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

Employees' end of service benefits

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

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

Derivative financial instruments

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)****2 Summary of significant accounting policies (continued)****Impairment and uncollectability of financial assets**

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

Trade and settlement date accounting

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

Recognition and de-recognition of financial instrument

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

2 Summary of significant accounting policies (continued)

Fair values

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

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

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

Offsetting of financial assets and liabilities

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

3 Critical accounting judgements and key sources of estimation of uncertainty

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

Loans and advances

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

Individually assessed loans

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

**Notes to the consolidated financial statements
for the year ended 31 December 2006 (continued)**

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

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

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

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

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

Collectively assessed loans

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

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

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

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

Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

**Notes to the consolidated financial statements
for the year ended 31 December 2006 (continued)**

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

Impairment of available-for-sale investments

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

Derivative financial instruments

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

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

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

4 Cash and balances with Central Banks

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

5 Deposits and balances due from banks

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

6 Trading investments

	2006 AED'000	2005 AED'000
Fair value	77,630	392,836
	<u>77,630</u>	<u>392,836</u>

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

7 Loans and advances, net

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

7 Loans and advances, net (continued)

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

7 Loans and advances, net (continued)

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

8 Non-trading investments

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

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

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

9 Other assets

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

11 Due to banks

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

12 Short and medium term borrowing

Unsecured notes

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

12 Short and medium term borrowing (continued)

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

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

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

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

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

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

13 Other liabilities

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

13 Other liabilities (continued)

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

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

14 Taxation

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

15 Share capital

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

16 Reserves

Statutory reserve

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

Legal reserve

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

General reserve

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

Contingency reserve

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

17 Proposed dividends

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

18 Interest income

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

19 Interest expense

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

20 Net fee and commission income

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

22 Basic earnings per share

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

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

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

23 Cash and cash equivalents

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

24 Related party transactions

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

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

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

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

ABU DHABI COMMERCIAL BANK P.J.S.C.
Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

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24 Related party transactions (continued)

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

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

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

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

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

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

25 Commitments and contingent liabilities

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

25 Commitments and contingent liabilities (continued)

Credit-related commitments

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

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

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

Derivative instruments

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

25 Commitments and contingent liabilities (continued)

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

25 Commitments and contingent liabilities (continued)

Derivative related credit risk

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

Gains or (losses) arising from fair value hedges:

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

25 Commitments and contingent liabilities (continued)

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

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

26 Segmental information

Primary segment information

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

26 Segmental information (continued)

Segmental information for the year was as follows:

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

26 Segmental information (continued)

Secondary segment information

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

27 Credit risk

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

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

28 Concentration of assets, liabilities and off balance sheet items

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

29 Interest rate risk

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

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

29 Interest rate risk (continued)

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

Assets	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Cash and balances with Central Banks	-	-	-	-	-	-	1,898,457	1,898,457
Due from Banks	4.70	9,876,906	8,380	127,605	16,341	-	35,977	10,065,209
Trading investments	-	-	-	-	-	-	77,630	77,630
Loans and advances, net	6.87	44,640,980	7,783,135	856,983	757,367	7,270,424	1,115,760	62,424,649
Non trading investments	6.91	1,886,210	439,046	56,171	1,826	1,101,053	216,438	3,700,744
Other assets	-	-	-	-	-	-	2,409,665	2,409,665
Property, plant and equipment, net	-	-	-	-	-	-	512,024	512,024
Total assets		56,404,096	8,230,561	1,040,759	775,534	8,371,477	6,265,951	81,088,378
Liabilities and Equity								
Due to banks	4.45	7,844,420	31,329	-	-	-	94,438	7,970,187
Customers' deposits	3.75	32,121,354	1,473,732	1,710,549	222,275	667,680	7,201,061	43,396,851
Short and medium term borrowings	5.25	10,350,271	2,445,427	3,814,496	-	-	-	16,610,194
Other liabilities	-	-	-	-	-	-	2,386,968	2,386,968
Equity	-	-	-	-	-	-	10,724,178	10,724,178
Total liabilities and equity		50,316,245	3,950,488	5,525,045	222,275	667,680	20,406,645	81,088,378
On-balance sheet gap		6,087,851	4,280,073	(4,484,286)	553,259	7,703,797	(14,140,694)	-
Off-balance sheet gap		75,296	(183,650)	73,460	89,989	(55,095)	-	-
Total interest rate sensitivity gap		6,163,147	4,096,423	(4,410,826)	643,248	7,648,702	(14,140,694)	-
Cumulative interest rate sensitivity gap		6,163,147	10,259,570	5,848,744	6,491,992	14,140,694	-	-

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

ABU DHABI COMMERCIAL BANK P.J.S.C.

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

29 Interest rate risk (continued)

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

29 Interest rate risk (continued)

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

30 Liquidity risk

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

30 Liquidity risk (continued)

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

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

Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)

30 Liquidity risk (continued)

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

31 Market price risk

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

32 Fair value of financial instruments

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

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

33 Capital adequacy and capital management

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

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

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

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

**Notes to the consolidated financial statements
for the year ended December 31, 2006 (continued)**

34 Foreign currency balances

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

35 Trust activities

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

36 Comparative figures

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

37 Approval of the consolidated financial statements

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

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