National Bank of Abu Dhabi PJSC

Consolidated financial statements

31 December 2008

National Bank of Abu Dhabi PJSC

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CHAIRMAN'S REPORT TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR 2008

On behalf of the Board of Directors of National Bank of Abu Dhabi, I would like to thank Mr. Khalifa AlKindi, the ex-chairman for his valuable contribution and guidance throughout the past two years, and have the honor of presenting you the Chairman's report for the year 2008.

Economic performance of the United Arab Emirates in 2008 continued to be strong. Forecasts indicate that the trade surplus reached a record high of AED 287 billion as a result of higher energy prices, up from AED 235 billion in 2007. Fiscal balances also recorded a record surplus reflecting buoyant hydrocarbon receipts with Abu Dhabi accounting for over 90% of hydrocarbon production in the UAE. Real GDP growth is forecast at 6.1% year-on-year. Per capita income in Abu Dhabi estimated at AED 262 thousand, already one of the highest levels in the world, is expected to have risen sharply in 2008. A significant slowdown in economic activity is evident going forward. Inflation is expected to have peaked in 2008 driven by higher food prices and rents but expected to fall sharply in 2009.

United Arab Emirates has been a net capital exporter in the last few years as a result of strong hydrocarbon revenues, thus building a cushion of significant foreign assets. Nevertheless, in the same period, non-bank corporate entities and the financial sector had increasingly funded the vibrant non-oil economic activity through external finance. The rapid growth in external borrowing, domestic credit, and real estate development ; while reflective of vibrant economic activity, created macroeconomic vulnerability. The reversal of large speculative flows betting on a Dirham revaluation versus the US Dollar and the drying up of external finance translated to tight liquidity conditions in the latter half of the year. Credit availability further declined as financial institutions adopted a significantly more conservative stance in lending due to increasing uncertainty in their operating environment and prospect of an imminent rise in non-performing loans. Expectations became self-fulfilling as a sharp correction in the real estate sector started and a negative feedback loop between the financial sector and economic activity got underway. Loss of confidence by households compounded by uncertainty about employment prospects coupled with poor prospects for sales and profits is translating to cutbacks in consumption and investment.

Economic activity is expected to have declined markedly in the final quarter of 2008 and a further retrenchment in aggregate demand is apparent going into 2009. The intrinsic strength of the Abu Dhabi economy – the core of the trade and fiscal surpluses generated by the United Arab Emirates – will help cushion the impact from a fall in energy prices and allow Abu Dhabi to weather the global economic turmoil and be well-positioned for a recovery in activity. In a climate of economic uncertainty, the financial strength of Abu Dhabi is also the strength of National Bank of Abu Dhabi.

In the middle of the international crisis, not witnessed in decadeds and whose impacts are progressively felt by all economies at various levels, the bank reported an excellent record results for the financial year ended 31 December 2008 with operating profit of AED 3.8 billion and net profits of AED 3 billion, the highest in the Bank's history. This is the time to retain our profits for the future growth of our bank, to increase our capital resources, maintain our asset quality and ratings while at the same time be well prepared to seize opportunities and continue to play a pivotal role in the development plans of Abu Dhabi and the UAE. Accordingly, the Board of Directors has recommended the distribution of a 20% cash dividend and 40% bonus shares to shareholders.

The Bank's operating income for the year 2008 reached a record AED 5.3 billion with net interest income up 50% over last year attributed to higher volumes and wider spreads. Non interest income, increased by 34% year-on-year reflecting the planned diversification of sources of income and despite the weak local equity markets which affected income in both the Bank's asset management and brokerage businesses. Expenses increased within plan by 42% to finance the organic growth in the Bank's network, IT systems and staff. The 2008 return on equity of 24.2% remains one of the highest in the UAE banking industry and worldwide.

Total assets reached AED 164.6 billion, 18% above 2007 levels. Loans and advances reached AED 111.7 billion, up 40%, and customer deposits increased 27% to AED 103.5 billion during the year.

All the bank's businesses performed well with exceptional performance from our strong domestic banking business with net profits of AED 2.1 billion. Our international business contributed AED 542.7 million of net profits and the financial markets division profits reaching AED 745.5 million.

The bank has completed the restructuring of its existing businesses which in 2009 will comprise of the domestic business, the international business, the new corporate and investment banking business, financial markets, islamic business and global wealth business.

We are a socially responsible bank and we contribute to good causes. In 2008, our donations and charity contributions amounted to AED 47 million including the 1% of net profit to Abu Dhabi entities.

The solid performance has resulted from the efforts exerted by the board committees and the dedication of the Bank's management and staff. I should also like to express my appreciation to our loyal customers for their valued business with the Bank.

Finally, on behalf of the shareholders, the members of the Board of Directors and the management and staff of the Bank, I wish to extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, to His Highness Sheikh Mohammed Bin Rashed Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and to His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, for their continued support and interest in the Bank's activities.

Nasser Ahmed Khalifa Al Sowaidi
Chairman

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Independent auditors' report

The Shareholders
National Bank of Abu Dhabi PJSC

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of National Bank of Abu Dhabi PJSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the consolidated financial statements
The Board of Directors' are 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 our 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, we consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and of its financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Articles of Association of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements
As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and that the contents of the Chairman's report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2008 which may have had a material adverse effect on the business of the Group or its financial position.

KPMG
Munther Dajani
Registration No. 268

2 February 2009

National Bank of Abu Dhabi PJSC

Consolidated balance sheet

As at 31 December 2008

	Note	2008 AED'000	2007 AED'000
Assets			
Cash and balances with central banks	7	**19,432,923**	36,399,339
Investments at fair value through profit or loss	8	**1,295,641**	1,200,725
Due from banks	9	**6,788,528**	8,158,270
Loans and advances	10	**111,764,267**	79,729,100
Non-trading investments	11	**14,982,756**	10,054,224
Other assets	12	**9,071,165**	3,305,764
Premises and equipment	13	**1,319,200**	583,296
Total assets		**164,654,480**	139,430,718
Liabilities			
Due to banks	14	**25,796,996**	27,041,015
Repurchase agreements with banks	15	**4,535,345**	5,305,965
Euro commercial paper	16	**73,997**	105,912
Customers' deposits	17	**103,481,145**	81,736,671
Medium-term borrowings	18	**8,594,284**	7,405,149
Other liabilities	19	**4,765,176**	4,182,093
		147,246,943	125,776,805
Subordinated convertible notes	20	**3,050,938**	2,439,681
Total liabilities		**150,297,881**	128,216,486
Equity			
Share capital	21	**1,976,614**	1,591,304
Statutory and special reserves	21	**3,116,560**	1,591,304
Share option scheme	22	**7,214**	-
Other reserves	21	**6,206,335**	7,158,698
Subordinated convertible notes - equity component	20	**85,408**	72,926
Retained earnings		**2,964,468**	800,000
Total equity		**14,356,599**	11,214,232
Total liabilities and equity		**164,654,480**	139,430,718

Nasser Ahmed Khalifa Al Sowaidi
Chairman

Michael Tomalin
Chief Executive

The notes 1 to 39 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

National Bank of Abu Dhabi PJSC

Consolidated income statement
For the year ended 31 December 2008

	Note	**2008 AED'000**	2007 AED'000
Interest income	*23*	**7,383,170**	7,084,126
Interest expense	*24*	**(3,775,605)**	(4,679,169)
Net interest income		**3,607,565**	2,404,957
Fee and commission income		**1,212,947**	932,395
Fee and commission expense		**(81,640)**	(47,118)
Net fee and commission income	*25*	**1,131,307**	885,277
Net (loss) / gain on investments	*26*	**(193,222)**	118,667
Net foreign exchange gain	*27*	**424,039**	218,990
Other operating income		**331,593**	37,713
		562,410	375,370
Operating income		**5,301,282**	3,665,604
General, administration and other operating expenses	*28*	**(1,493,416)**	(1,054,369)
Profit before net impairment charge and taxation		**3,807,866**	2,611,235
Impairment charge, net	*29*	**(717,080)**	(41,690)
Profit before taxation		**3,090,786**	2,569,545
Overseas income tax expense	*30*	**(72,051)**	(64,408)
Net profit for the year		**3,018,735**	2,505,137
Basic earnings per share (AED)	*36*	**1.54**	1.30
Diluted earnings per share (AED)	*36*	**1.50**	1.30

The notes 1 to 39 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 1.

National Bank of Abu Dhabi PJSC

Consolidated statement of cash flows

For the year ended 31 December 2008

	Note	2008 AED'000	2007 AED'000
Cash flows from operating activities			
Profit before taxation		**3,090,786**	2,569,545
Adjustments for:			
Depreciation	*13*	**82,171**	67,992
Accreted interest		**12,214**	7,213
Write-offs and impairment charge		**835,101**	148,432
Foreign currency translation adjustment		**(506,056)**	151,384
Share option scheme		**7,214**	-
Write back of provisions for loans and advances	*29*	**(74,449)**	(66,101)
		3,446,981	2,878,465
Change in investments at fair value through profit or loss		**(98,167)**	(792,464)
Change in due from banks and central banks		**9,590,396**	(16,530,194)
Change in loans and advances		**(32,666,575)**	(22,295,739)
Change in other assets		**(5,646,322)**	(1,107,154)
Change in due to banks		**(1,244,019)**	20,972,133
Change in repurchase agreements with banks		**(770,620)**	(703,813)
Change in customers' deposits		**21,744,474**	10,998,772
Change in other liabilities		**453,225**	1,005,653
		(5,190,627)	(5,574,341)
Overseas income tax paid, net of recoveries	*19*	**(76,334)**	(63,414)
Net cash used in operating activities		**(5,266,961)**	(5,637,755)
Cash flows from investing activities			
Purchase of non-trading investments		**(8,632,275)**	(5,484,196)
Proceeds from sale / maturity of non-trading investments		**2,982,143**	6,047,285
Purchase of premises and equipment, net of disposals		**(818,075)**	(227,237)
Net cash (used in) / from investing activities		**(6,468,207)**	335,852
Cash flows from financing activities			
Net movement of Euro commercial paper		**(31,915)**	105,912
Proceeds from medium term borrowings		**2,196,158**	3,683,829
Redemption of medium term borrowings		**(515,966)**	-
Issue of subordinated convertible notes	*20*	**2,000,000**	-
Dividends paid	*21*	**(658,871)**	(489,632)
Net cash from financing activities		**2,989,406**	3,300,109
Net decrease in cash and cash equivalents		**(8,745,762)**	(2,001,794)
Cash and cash equivalents at 1 January		**24,345,317**	26,347,111
Cash and cash equivalents at 31 December	*31*	**15,599,555**	24,345,317

The notes 1 to 39 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

National Bank of Abu Dhabi PJSC

Consolidated statement of changes in equity

For the year ended 31 December 2008

					Other reserves					
	Share capital AED'000	**Statutory reserve AED'000**	**Special reserve AED'000**	**Share option scheme AED'000**	**General reserve AED'000**	**Fair value reserve AED'000**	**Foreign currency translation reserve AED'000**	**Subordinated convertible notes - equity component AED'000**	**Retained earnings AED'000**	**Total AED'000**
Balance at 1 January 2007	1,224,080	715,400	612,040	-	5,926,879	(210,149)	14,088	72,926	650,000	9,005,264
Foreign currency translation adjustment	-	-	-	-	-	-	20,095	-	-	20,095
Net movement in fair value reserve *(note 21)*	-	-	-	-	-	185,765	-	-	-	185,765
Adjustment for Directors' remuneration	-	-	-	-	-	-	-	-	(8,687)	(8,687)
Total income and expenses for the year recognised directly in equity	-	-	-	-	-	185,765	20,095	-	(8,687)	197,173
Net profit for the year	-	-	-	-	-	-	-	-	2,505,137	2,505,137
Total income and expense for the year	-	-	-	-	-	185,765	20,095	-	2,496,450	2,702,310
Dividend paid for 2006 *(note 21)*	-	-	-	-	-	-	-	-	(489,632)	(489,632)
Directors remuneration	-	-	-	-	-	-	-	-	(3,710)	(3,710)
Bonus shares issued *(note 21)*	367,224	-	-	-	(367,224)	-	-	-	-	-
Transfer to reserves	-	80,252	183,612	-	1,589,244	-	-	-	(1,853,108)	-
Balance at 31 December 2007	**1,591,304**	**795,652**	**795,652**	**-**	**7,148,899**	**(24,384)**	**34,183**	**72,926**	**800,000**	**11,214,232**
Foreign currency translation adjustment	-	-	-	-	-	-	(15,000)	-	-	(15,000)
Net movement in fair value reserve *(note 21)*	-	-	-	-	-	(607,927)	-	-	-	(607,927)
Other adjustment	-	-	-	-	-	-	-	-	(1,998)	(1,998)
Total income and expenses for the year recognised directly in equity	-	-	-	-	-	(607,927)	(15,000)	-	(1,998)	(624,925)
Net profit for the year	-	-	-	-	-	-	-	-	3,018,735	3,018,735
Total income and expense for the year	-	-	-	-	-	(607,927)	(15,000)	-	3,016,737	2,393,810
Options granted to staff *(note 22)*	-	-	-	7,214	-	-	-	-	-	7,214
Directors remuneration	-	-	-	-	-	-	-	-	(743)	(743)
Dividend paid for 2007 *(note 21)*	-	-	-	-	-	-	-	-	(658,871)	(658,871)
Subordinated convertible note issued	-	-	-	-	-	-	-	52,984	-	52,984
Conversion of subordinated convertible notes *(note 20)*	55,874	-	1,332,601	-	-	-	-	(40,502)	-	1,347,973
Transfer to statutory reserve	-	192,655	-	-	-	-	-	-	(192,655)	-
Bonus shares issued *(note 21)*	329,436	-	-	-	(329,436)	-	-	-	-	-
Balance at 31 December 2008	**1,976,614**	**988,307**	**2,128,253**	**7,214**	**6,819,463**	**(632,311)**	**19,183**	**85,408**	**2,964,468**	**14,356,599**

The notes 1 to 39 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

1 Legal status and principal activities

National Bank of Abu Dhabi PJSC (the “Bank”) was established in Abu Dhabi in 1968 with limited liability and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law No. 8 of 1984 (as amended) relating to Commercial Companies.

Its registered office address is P. O. Box 4, Abu Dhabi, United Arab Emirates. The consolidated financial statements as at and for the year ended 31 December 2008 comprise the Bank and its subsidiaries (the “Group”). The Group is primarily engaged in corporate, retail, private and investment banking activities and carries out its operations through its local and overseas branches and subsidiaries located in Bahrain, Egypt, France, Oman, Kuwait, Sudan, the United Kingdom, Switzerland, China and the United States of America.

The consolidated financial statements were authorised for issue by the Board of Directors on 2 February 2009.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- investments at fair value through profit or loss are measured at fair value;
- non-trading investments classified as available for sale are measured at fair value;
- the carrying values of recognised assets and liabilities that are hedged items in fair value and cash flow hedges, and are otherwise carried at amortised cost, are adjusted to record changes in fair values attributable to risks that are being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan.

2 Basis of preparation *(continued)*

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate. These consolidated financial statements are presented in AED, which is the Group's presentation currency. Except as indicated, information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

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

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries as listed below:

	Country of incorporation
Abu Dhabi International Bank Inc.	Curacao, Netherlands Antilles
Abu Dhabi Financial Services LLC	Abu Dhabi, United Arab Emirates
Abu Dhabi National Leasing LLC	Abu Dhabi, United Arab Emirates
NBAD Trust Company (Jersey) Limited	Jersey, Channel Islands
NBAD Private Bank (Suisse) SA	Geneva, Switzerland
Abu Dhabi National Islamic Finance Company	Abu Dhabi, United Arab Emirates
Ample China Holding Limited	Hong Kong, China

3 Significant accounting policies *(continued)*

(a) Basis of consolidation *(continued)*

(ii) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well defined objective. The financial statements of special purpose entities are not included in the Group's consolidated financial statements except when the substance of the relationship is that the Group controls the special purpose entity. Information about the Group's special purpose entities is set out in note 38.

(iii) Fund management

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management and fiduciary activity is set out in note 37.

(iv) Transactions eliminated on consolidation

The carrying amount of the Bank's investment in each subsidiary and the equity of each subsidiary is eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses arising from intra-group transactions are eliminated on consolidation.

(b) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, customers' deposits, medium term and subordinated debt on the date that they are originated. All other financial assets and liabilities are initially recognised on the balance sheet when, the Group becomes a party to the contractual provisions of the instrument.

All *regular way* purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. *Regular way* purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions *(Refer note 15).*

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible *(Refer note 4).*

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(iii) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(iv) Held for trading

Trading assets are those assets that the group acquires for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit taking.

Trading assets are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the consolidated income statement. All changes in fair value are recognised as part of net trading income in the consolidated income statement. Trading assets are not reclassified subsequent to their initial recognition.

(v) Designation as available for sale

The Group has non-derivative financial assets designated as available for sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(vi) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vii) Amortised cost measurement

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

(viii) Fair value measurement

The determination of fair values of financial assets and liabilities is based on quoted market prices or dealer quotations for financial instruments traded in active markets. Quoted bid prices are used for financial assets and quoted ask prices are used for financial liabilities. For financial instruments not traded on an active market, fair value is determined based on recent transactions or brokers' quotes. The Group uses widely recognised valuation models for determining the fair value of derivative financial instruments such as interest and currency swaps.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ix) Identification and measurement of impairment

An assessment is made at each balance sheet date and periodically during the year to determine whether there is any objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

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

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated income statement.

Impairment losses on available for sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the consolidated income statement. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through the consolidated income statement.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

3 Significant accounting policies *(continued)*

(c) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks with original maturity of three months or less from the date of placement.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition. These are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated income statement. All related realised and unrealised gains or losses are included in net investment income.

(e) Due from banks

These are stated at amortised cost, less any allowance for impairment.

(f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method, adjusted for effective fair value hedges, net of interest suspended and provisions for impairment.

3 Significant accounting policies *(continued)*

(g) Non-trading investments

Non-trading investments are classified as available for sale and are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are remeasured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are reported as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, is included in the consolidated income statement for the period. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated income statement to the extent of the changes in fair value being hedged.

For the purpose of recognising foreign exchange gains and losses, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated income statement.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon subsequent derecognition, the profit or loss on sale is recognised in the consolidated income statement for the period.

(h) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resale at a specified future date (reverse repos) are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements within “Other assets” in the consolidated balance sheet. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated income statement using the effective interest method.

(i) Premises and equipment

(i) Recognition and measurement

All items of premises and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost, and upon completion are transferred to the appropriate category of premises and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3 Significant accounting policies *(continued)*

(i) Premises and equipment *(continued)*

(ii) Depreciation

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of all premises and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings	20 years
Office furniture and equipment	1 to 5 years
Alterations to premises	4 years
Safes	10 to 20 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iii) Impairment

The carrying amounts are reviewed at each balance sheet date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement to the extent that carrying values do not exceed the recoverable amounts.

(j) Collateral pending sale

Non-financial assets acquired in settlement of loans and advances are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated income statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated income statement. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(k) Due to banks, customers' deposits, Euro commercial paper and medium-term borrowings

Due to banks, customer deposits and medium-term borrowings are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies *(continued)*

(l) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements with banks in the consolidated balance sheet. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated income statement using the effective interest method.

(m) Subordinated convertible notes

Subordinated convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the subordinated convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

(n) Share option scheme

The grant date fair value of options granted to staff is recognised as staff cost, with a corresponding increase in equity, over the period in which the staff become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to staff in respect of the share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in consolidated income statement.

(o) Interest

Interest income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

3 Significant accounting policies *(continued)*

(o) Interest *(continued)*

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis.
- interest on available-for-sale investment securities on an effective interest basis.
- interest on held for trading securities.

(p) Fee and commission

The Group earns fee and commission income from a diverse range of services provided to its customers. Recognition of revenue for fee and commission income depends on the purposes for which the fees are assessed and the basis of accounting for the associated financial instrument. Fee and commission income is accounted for as follows:

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in "Interest income";
- income earned from the provision of services is recognised as revenue as the services are provided (for example, loan processing fees, investment management fees and loan syndication fees); and
- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, commission on the allotment of shares to a client, placement fees for arranging a loan between the borrower and an investor).

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(q) Net investment income

Net investment income comprise gains less losses relating to realised and unrealised gains and losses on investments at fair value through profit or loss, realised gains and losses on non-trading investments and dividend income. Dividend income is recognised when the right to receive payment is established.

(r) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions.

3 Significant accounting policies *(continued)*

(r) Foreign currency *(continued)*

(i) Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the balance sheet date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the subsidiaries and overseas branches are translated into UAE Dirhams at rates of exchange at the balance sheet date. Income and expense items are translated at average rates, as appropriate, at the dates of transactions. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in equity.

(s) Overseas income tax

Income tax expense is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated income statement. Income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

3 Significant accounting policies *(continued)*

(t) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated income statement. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated income statement. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided certain criteria are met.

Hedge accounting
It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an ongoing basis, of the effectiveness of the hedge.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedge
In relation to fair value hedges, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

Cash flow hedge
In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement. Gain or loss, if any, relating to the ineffective portion is recognised immediately in the consolidated income statement. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement.

Other derivatives
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated income statement as a component of net investment income.

3 Significant accounting policies *(continued)*

(u) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(v) Staff terminal benefits

UAE operations: UAE nationals employed by the Group are registered in the scheme managed by Abu Dhabi Retirement Pensions & Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal regulations, which comply with the UAE federal labour law.

An actuarial valuation is not performed on staff terminal and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation are not expected by management to be significant.

Foreign operations: the Group provides for staff terminal benefits for its employees based overseas in accordance with the applicable regulations.

(w) Directors' remuneration

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration has been treated as an appropriation from equity.

(x) Fiduciary activities

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

(y) Financial guarantees

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

Financial guarantee contracts which were previously asserted explicitly as insurance contracts continue to be accounted as such under IFRS 4.

For other financial guarantee contracts, 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 is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3 Significant accounting policies *(continued)*

(z) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise subordinated convertible notes and share options granted to staff.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(ab) Lease payments

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ac) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements and will be applicable retrospectively. The Group is currently in the process of evaluating the potential effect of this interpretation.

Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group is currently in the process of evaluating the potential effect of this amendment.

3 Significant accounting policies *(continued)*

(ac) New standards and interpretations not yet adopted *(continued)*

Revised IFRS 3 *Business Combinations (2008)* incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 35). This standard will have no effect on the Group's reported total profit or loss or equity. The Group is currently in the process of determining the potential effect of this standard on the Group's segment reporting.

Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements as the Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional requirements, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

3 Significant accounting policies *(continued)*

(ac) New standards and interpretations not yet adopted *(continued)*

Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements with retrospective application required, are not expected to have any significant impact on the consolidated financial statements.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:
- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, applies prospectively to the Group's existing hedge relationships and net investments. The Group is currently in the process of evaluating the potential effect of this Interpretation.

4 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by three board committees and three management committees.

***Board Committees*:**

a) Risk Management Committee (RMC), comprising members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and thereafter monitor and adherence. The RMC is also set-up to monitor the Group's credit, operational and market risks, to take credit decisions above management's discretionary powers and to set market risk limits under which the Group's management operates.

b) Remedial Advances Committee (RAC) identifies, monitors and takes corrective action on impaired credits including restructured loans of the Group. The RAC reports to the RMC for impaired amounts that exceed its delegation authority.

c) Audit Committee (AC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Group AC is assisted in these functions by the Audit and Compliance Division

Management committees:

The Risk Management Committee is set up as follows:

i) Assets and Liabilities Committee (ALCO);
ii) Group Credit Committee (GCC); and
iii) Operational Risk Management Committee (ORMC).

The execution responsibilities are delegated to the management committees, which are responsible for implementing the risk management framework. The major function of the three management committees is given below:

4 Financial risk management *(continued)*

(a) Introduction and overview *(continued)*

Management committees: *(continued)*

i) Asset and Liability Committee (ALCO): The principle aim of ALCO is to achieve sustainable and stable profits within a framework of acceptable financial risks, which includes liquidity risk, interest rate risk, foreign exchange risk and capital management.

ii) Group Credit Committee (GCC) is responsible for approving credit proposals under authority delegated by the Board. Credit proposals exceeding the authority of the GCC are referred to the RMC. The GCC also recommends credit policy and strategy issues and periodically monitors the credit portfolio of the Group. The provisioning for the assets also forms part of the GCC function. The GCC in turn delegates authority to divisional credit committees.

iii) Operational Risk Management Committee (ORMC): The primary objective of ORMC is to steer and align the operational risk management activities in the bank. ORMC acts as the central point in co-ordinating various efforts and initiatives that relate to operational risk management including alignment with other operational risk mitigating strategies such as Business Continuity Management, Information Securities, Anti Money Laundering, Process improvement, Internal Audit. The ORMC is the main source of operational risk management input for RMC.

A separate Risk Management Division (RMD), reporting to the Risk Management Committee, assists in carrying out the oversight responsibility of the Board. There are three main independent functions of the RMD, which are: (i) Credit Underwriting; (ii) Credit Administration and (iii) Independent Portfolio Risk Management. The Credit underwriting function deals with independent underwriting of domestic, international and remedial advances. There is clear segregation between the credit approval and independent risk management, with a middle office straddling between the two areas, to provide logistical support from an administrative, systems and compliance perspective.

All risk management policies are reviewed and approved regularly by the relevant committee of the Board and / or management to reflect changes in market conditions, products and services offered.

(b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and non-trading investments.

For risk management purposes, credit risk arising on trading investments is managed independently, and reported as a component of market risk exposure.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk

The Group'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 committed 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 risk management strategy and market trends.

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

The Group uses an internal risk rating system to assess the credit quality of borrowers and counterparties. Each exposure in the Sovereign, Banks and Corporate asset classes is assigned a rating. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-7 are performing, Grade 8 is Other Loans Especially Mentioned (OLEM) and Grades 9-11 are non – performing each with a rating description.

- For Sovereign and Banks, rating grades are mapped to Long-Term External Credit Assessment Agency Ratings.
- For Corporate, these are mapped to an Internal Rating Based (IRB) expert system, tuned for GCC conditions.
- Each grade in the rating system is linked to a statistical Probability of Default (PD).

The risk rating system plays a significant role in efficient use of credit risk measurement and management including:

- Risk based pricing and determination of Risk adjusted return on capital
- Risk based monitoring (Frequency and intensity of monitoring)
- Determining risk based delegation of powers at various sanction authority levels
- Impairment testing
- In due course the rating is also designed towards estimation of regulatory capital as per Basel II

The rating system is subject to annual review and verification process.

Retail lending business is governed by the product programs vetted by the risk management department and employs credit scoring technique to process small scale, large volume credit decisions. The scores are combined with management judgement to ensure effective ongoing process of approval, review and enhancement.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Credit risk monitoring is performed at various levels:

i) Monitoring of risk quality (Obligor level): The Group has a process for risk rating review relative to initial rating grade bands. More frequent reviews are made for the poorer credits and less frequent reviews for the superior credits. The Group has a process of defining and reporting all the potential problem account.

ii) Monitoring of risk quality (Portfolio Level): Group monitors the existing portfolio based on the economic sectors, industry, geography, ratings and business lines. These portfolio reports are generated periodically and senior management is informed of the same.

iii) Monitoring of past dues on principal and interest: All the past dues on principal and interest on loans and advances portfolio of the Group are reported periodically to the senior management. Measures to realise the accounts are initiated and close follow up is done.

iv) Monitoring of excess over limits: Group has a policy of monitoring all excesses over limits. The monitoring reports are submitted to the senior management and processes are initiated to realise the accounts.

v) Monitoring of potential loss accounts (OLEM): This category comprises of accounts where principal or interest are past due for more than 30 days or accounts which show some potential weakness in the borrower's financial position and credit worthiness, which requires greater follow-up and monitoring.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

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

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment:

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Due from Banks		Loans and advances		Non-trading investments	
	2008	2007	**2008**	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Individually impaired						
Substandard	**-**	**-**	**207,580**	87,451	-	-
Doubtful	**1,157**	1,369	**1,101,640**	936,109	**20,055**	20,055
Loss	-	-	**1,673,829**	1,757,232	-	-
Gross amount	**1,157**	1,369	**2,983,049**	2,780,792	**20,055**	20,055
Interest suspended	**-**	-	**(1,911,304)**	(1,921,867)	**-**	-
Specific allowance for impairment	**(1,157)**	(1,369)	**(701,698)**	(665,428)	**(16,712)**	(16,712)
Carrying amount	**-**	-	**370,047**	193,497	**3,343**	3,343
Past due but not impaired						
Watch list - overdue by less than 90 days* Carrying amount	**-**	-	**454,312**	192,464	-	-
Neither past due nor impaired	**6,788,528**	8,158,270	**111,787,993**	79,587,842	**14,979,413**	10,050,881
Collective allowance for impairment	**-**	-	**(848,085)**	(244,703)	-	-
Carrying amount	**6,788,528**	8,158,270	**111,764,267**	79,729,100	**14,982,756**	10,054,224

***** *The Group's policy is to classify loans and advances past due for more than 90 days as substandard, which comply with the Central Bank of the UAE requirements.*

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impaired loans and advances and non-trading investments

Impaired loans and advances and non-trading investments are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. The Group financial assets that are neither past due nor impaired mainly fall within the grade 3-4 in accordance with the Group's internal credit risk grading system.

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as AFS that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance for losses that have been incurred but not identified, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue or there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

Write-off policy

The Group writes off a loan or investment balance (and any related allowances for impairment losses) when the Remedial Advances Committee determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collateral

The Group holds collateral against loans and advances in the form of mortgage interests over property, other securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against non-trading investments and due from banks, and no such collateral was held at 31 December 2008 or 2007.

Management estimates the fair value of collaterals and other security enhancements held against individually impaired loans and advances to reasonably approximate AED 557 million *(2007 : AED 477 million)* as at the reporting date.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans and advances	
	2008	2007
	AED'000	AED'000
Carrying amount	**111,764,267**	79,729,100
Concentration by industry sector:		
Agriculture	**151,822**	100,384
Energy	**10,587,202**	8,306,231
Manufacturing	**7,214,596**	4,789,738
Construction	**7,347,252**	3,789,815
Real estate	**16,991,214**	9,818,503
Trading	**7,815,420**	5,278,832
Transport	**6,365,725**	5,166,806
Banks	**991,587**	988,885
Other financial institutions	**11,938,702**	6,629,115
Services	**8,960,480**	4,973,929
Government	**13,802,226**	15,247,429
Personal loans for consumption	**11,134,210**	7,778,990
Personal loans others	**11,503,240**	9,094,990
Others	**421,677**	597,451
	115,225,353	82,561,098
Less: allowance for impairment	**(1,549,782)**	(910,131)
Less: interest suspended	**(1,911,304)**	(1,921,867)
Net loans and advances	**111,764,267**	79,729,100

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

	Due from banks		Non-trading investments	
	2008	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000
Carrying amount	**6,788,528**	8,158,270	**14,982,756**	10,054,224
Concentration by counter party:				
Government	**-**	-	**987,488**	1,681,961
Supranational	**-**	-	**451,454**	537,909
Public sector	**-**	-	**888,578**	440,918
Banks	**6,789,685**	8,159,639	**11,473,939**	6,652,615
Corporate sector	**-**	-	**1,198,009**	757,533
	6,789,685	8,159,639	**14,999,468**	10,070,936
Less: Allowance for impairment	**(1,157)**	(1,369)	**(16,712)**	(16,712)
Total carrying amount	**6,788,528**	8,158,270	**14,982,756**	10,054,224

The concentration by counter party for loans and advances is disclosed in note 10.

	Due from banks		Loans and advances		Non-trading investments	
	2008	2007	**2008**	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Concentration by location:						
UAE	**3,579,261**	1,317,543	**83,376,441**	52,436,013	**3,855,136**	1,578,638
Europe	**2,264,421**	5,025,003	**13,600,063**	15,206,557	**7,490,460**	6,197,767
Arab countries	**472,365**	1,059,716	**13,866,763**	11,443,996	**1,797,667**	1,303,097
USA	**382,758**	696,836	**690,410**	387,740	**962,417**	776,310
Asia	**68,485**	51,209	**56,704**	246,793	**-**	18,321
Others	**21,238**	7,963	**173,886**	8,001	**877,076**	180,091
	6,788,528	8,158,270	**111,764,267**	79,729,100	**14,982,756**	10,054,224

Concentration by location for loans and advances and due from banks is measured based on the residential status of the borrower. Concentration by location for non-trading investments is measured based on the location of the issuer of the security.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

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 market value of instruments that are favourable to the Group, which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other financial institutions.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is discussed in note 32.

(c) Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid trading investments, and inter-bank placements. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

Details of the Group's net liquid assets is summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2008 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**19,432,923**	15,894,553	3,520,000	-	-	18,370	-
Investments at fair value through profit or loss	**1,295,641**	1,295,641	-	-	-	-	-
Due from banks	**6,788,528**	6,245,554	462,974	80,000	-	-	-
Loans and advances	**111,764,267**	35,395,625	13,631,242	11,732,199	15,528,506	35,476,695	-
Non-trading investments	**14,982,756**	947,515	1,125,622	3,682,827	1,906,956	7,319,836	-
Other assets	**9,071,165**	7,702,795	1,105,592	239,330	20,873	2,575	-
Premises and equipment	**1,319,200**	-	-	-	-	-	1,319,200
	164,654,480	**67,481,683**	**19,845,430**	**15,734,356**	**17,456,335**	**42,817,476**	**1,319,200**
Liabilities and equity							
Due to banks	**25,796,996**	25,154,297	569,239	73,460	-	-	-
Repurchase agreements with banks	**4,535,345**	4,535,345	-	-	-	-	-
Euro commercial paper	**73,997**	73,997	-	-	-	-	-
Customers' deposits	**103,481,145**	90,138,353	5,614,665	4,574,268	2,915,658	238,201	-
Medium-term borrowings	**8,594,284**	142,364	465,267	4,091,656	3,894,997	-	-
Other liabilities	**4,765,176**	3,621,758	1,040,652	60,237	40,687	1,842	-
Subordinated convertible notes	**3,050,938**	-	-	-	-	3,050,938	-
Equity	**14,356,599**	-	-	-	-	-	14,356,599
	164,654,480	**123,666,114**	**7,689,823**	**8,799,621**	**6,851,342**	**3,290,981**	**14,356,599**

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4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2007 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**36,399,339**	25,590,630	10,785,000	-	-	23,709	-
Investments at fair value through profit or loss	**1,200,725**	1,200,725	-	-	-	-	-
Due from banks	**8,158,270**	7,323,328	754,942	80,000	-	-	-
Loans and advances	**79,729,100**	25,997,011	9,531,236	8,902,373	9,114,876	26,183,604	-
Non-trading investments	**10,054,224**	413,529	317,619	1,967,746	1,269,604	6,085,726	-
Other assets	**3,305,764**	2,442,586	757,769	-	103,860	1,549	-
Premises and equipment	**583,296**	-	-	-	-	-	583,296
	139,430,718	**62,967,809**	**22,146,566**	**10,950,119**	**10,488,340**	**32,294,588**	**583,296**
Liabilities and equity							
Due to banks	**27,041,015**	25,410,466	1,630,549	-	-	-	-
Repurchase agreements with banks	**5,305,965**	5,305,965	-	-	-	-	-
Euro commercial paper	**105,912**	105,912	-	-	-	-	-
Customers' deposits	**81,736,671**	74,910,282	5,230,525	1,135,970	210,883	249,011	-
Medium-term borrowings	**7,405,149**	144,624	332,834	4,369,163	2,558,528	-	-
Other liabilities	**4,182,093**	3,126,520	1,014,109	17,697	19,540	4,227	-
Subordinated convertible notes	**2,439,681**	-	-	-	-	2,439,681	-
Equity	**11,214,232**	-	-	-	-	-	11,214,232
	139,430,718	**109,003,769**	**8,208,017**	**5,522,830**	**2,788,951**	**2,692,919**	**11,214,232**

4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The previous table shows undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows may vary from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

(d) Market risks

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

Management of market risks
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 Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

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

Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 33.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly there is a limited exposure to interest rate risk.

The effective interest rate 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 an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

4 Financial risk management *(continued)*

(d) Market risks *(continued)*

The Group's interest rate sensitivity position and interest rate gap position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**19,432,923**	8,955,074	3,520,000	-	-	4,988	6,952,861
Investments at fair value through profit or loss	**1,295,641**	1,084,286	-	-	-	-	211,355
Due from banks	**6,788,528**	5,549,539	462,974	80,000	-	-	696,015
Loans and advances	**111,764,267**	75,526,691	29,745,144	2,576,652	1,862,996	2,011,248	41,536
Non-trading investments	**14,982,756**	9,393,854	2,171,395	2,534,476	628,683	121,564	132,784
Other assets	**9,071,165**	3,667,592	-	-	-	-	5,403,573
Premises and equipment	**1,319,200**	-	-	-	-	-	1,319,200
	164,654,480	**104,177,036**	**35,899,513**	**5,191,128**	**2,491,679**	**2,137,800**	**14,757,324**
Liabilities and equity							
Due to banks	**25,796,996**	23,922,374	569,239	-	-	-	1,305,383
Repurchase agreements with banks	**4,535,345**	4,535,345	-	-	-	-	-
Euro commercial paper	**73,997**	73,997	-	-	-	-	-
Customers' deposits	**103,481,145**	74,445,852	4,567,300	4,108,317	2,894,005	-	17,465,671
Medium-term borrowings	**8,594,284**	6,605,302	114,136	-	1,874,846	-	-
Other liabilities	**4,765,176**	-	-	-	-	-	4,765,176
Subordinated convertible notes	**3,050,938**	3,050,938	-	-	-	-	-
Equity	**14,356,599**	-	-	-	-	-	14,356,599
	164,654,480	**112,633,808**	**5,250,675**	**4,108,317**	**4,768,851**	**-**	**37,892,829**
On balance sheet gap		(8,456,772)	30,648,838	1,082,811	(2,277,172)	2,137,800	(23,135,505)
Off balance sheet gap		(2,648,212)	(2,399,738)	2,629,120	2,569,928	(151,098)	-
Total interest rate sensitivity gap		**(11,104,984)**	**28,249,100**	**3,711,931**	**292,756**	**1,986,702**	**(23,135,505)**
Cumulative interest rate sensitivity		**(11,104,984)**	**17,144,116**	**20,856,047**	**21,148,803**	**23,135,505**	**-**

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4 Financial Risk Management *(continued)*

(d) Market risks *(continued)*

The Group's interest rate sensitivity position and interest rate gap position based on a contractual re-pricing arrangement at 31 December 2007 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**36,399,339**	19,726,788	10,785,000	-	-	4,994	5,882,557
Investments at fair value through profit or loss	**1,200,725**	821,162	-	-	-	-	379,563
Due from banks	**8,158,270**	6,521,857	1,130,358	-	-	-	506,055
Loans and advances	**79,729,100**	73,598,460	4,114,937	495,280	654,720	836,086	29,617
Non-trading investments	**10,054,224**	7,327,564	830,120	1,549,710	19,257	240,660	86,913
Other assets	**3,305,764**	-	-	-	-	-	3,305,764
Premises and equipment	**583,296**	-	-	-	-	-	583,296
	139,430,718	**107,995,831**	**16,860,415**	**2,044,990**	**673,977**	**1,081,740**	**10,773,765**
Liabilities and equity							
Due to banks	**27,041,015**	15,184,135	1,631,206	-	-	-	10,225,674
Repurchase agreements with banks	**5,305,965**	5,305,965	-	-	-	-	-
Euro commercial paper	**105,912**	105,912	-	-	-	-	-
Customers' deposits	**81,736,671**	59,627,689	5,305,254	1,042,469	155,564	-	15,605,695
Medium-term borrowings	**7,405,149**	4,627,542	-	218,206	2,559,401	-	
Other liabilities	**4,182,093**	-	-	-	-	-	4,182,093
Subordinated convertible notes	**2,439,681**	2,439,681	-	-	-	-	-
Equity	**11,214,232**	-	-	-	-	-	11,214,232
	139,430,718	**87,290,924**	**6,936,460**	**1,260,675**	**2,714,965**	**-**	**41,227,694**
On balance sheet gap		20,704,907	9,923,955	784,315	(2,040,988)	1,081,740	(30,453,929)
Off balance sheet gap		8,898,043	(5,068,252)	(1,927,387)	(1,483,849)	(418,555)	-
Total interest rate sensitivity gap		**29,602,950**	**4,855,703**	**(1,143,072)**	**(3,524,837)**	**663,185**	**(30,453,929)**
Cumulative interest rate sensitivity		**29,602,950**	**34,458,653**	**33,315,581**	**29,790,744**	**30,453,929**	**-**

4 Financial Risk Management *(continued)*

(d) Market risks *(continued)*

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points *(2007: 50 basis points)* and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year AED'000 2008	**Equity AED'000 2008**	Net profit for the year AED'000 2007	Equity AED'000 2007
Fluctuation in yield	**115,678**	**108,953**	152,270	146,555

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 149,897 million *(2007: AED 128,657 million)* interest bearing assets and AED 126,761 million *(2007: AED 98,203 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot position (Short)/long AED'000	**Forward position (Short)/long AED'000**	**Total 2008 (Short)/long AED'000**	Total 2007 (Short)/long AED'000
Currency				
US Dollar	**(12,321,990)**	**6,645,737**	**(5,676,253)**	(3,557,591)
UK Sterling Pound	**7,573,373**	**(7,565,843)**	**7,530**	(3,026)
Euro	**(2,949,477)**	**3,071,113**	**121,636**	90,612
Kuwaiti Dinar	**34,040**	**156,770**	**190,810**	216,921
Omani Riyal	**282,594**	**(4,679)**	**277,915**	50,235
Saudi Riyal	**48,045**	**505,363**	**553,408**	102,389

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent. Exposure to other foreign currencies is insignificant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

4 Financial Risk Management *(continued)*

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Board has oversight responsibilities for operational risk management in the Group. These responsibilities are exercised through ORMC with an established framework of policies and procedures to identify, assess, monitor, control, manage and report risks. The ORMC employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. The framework also provides the interrelation with other risk categories.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Audit and Compliance Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(f) Capital management

The Group's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements. The overseas branches and subsidiaries are directly supervised by their local regulators.

The Group's objectives when managing capital are:

- safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- comply with regulatory capital requirements set by the Central Bank of the UAE and the respective regulators where the overseas units operate.

During 2008, the Group's strategy, which was unchanged from 2007, was to:

- increase capital resources by way of issuing convertible subordinated notes that is treated as Tier 2 capital;
- maintain a cash dividend payout ratio of 40% to increase capital through retention;
- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines;
- maintain the highest credit rating in the Middle East; and
- efficiently allocate capital to various businesses.

4 Financial Risk Management *(continued)*

(f) Capital management *(continued)*

The Group has set up a committee, namely, the Bank Equity Committee, to manage the investment of capital funds in sovereign bonds and short term money market placements with either the Central Bank of the UAE or above investment grade financial institutions.

In implementing current capital requirements, the Group calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets. Further, the Group also calculates its capital adequacy ratio in accordance with Basel II Accord which was adopted by the Central Bank of the UAE with effect from 31 December 2008.

The Group's regulatory capital adequacy ratios, set by the Central Bank of the UAE at a minimum level of 10%, is analysed into two tiers as follows:

	2008	2007
	AED'000	AED'000
Tier 1 capital		
Ordinary share capital	**1,976,614**	1,591,304
Retained earnings	**2,964,468**	800,000
Statutory and special reserve	**3,116,560**	1,591,304
General reserve and share option scheme	**6,826,677**	7,148,899
Foreign currency translation reserve	**19,183**	34,183
Subordinated convertible notes - equity component	**85,408**	72,926
Total	**14,988,910**	11,238,616
Tier 2 capital		
Fair value reserve	**(632,311)**	(24,384)
Qualifying subordinated liabilities	**3,050,938**	2,439,681
Total	**2,418,627**	2,415,297
Deductions from Tier 1 and Tier 2		
Investments in associates	**(3,445)**	(3,342)
Total	**(3,445)**	(3,342)
Total capital base	**17,404,092**	13,650,571
Risk weighted assets:		
On balance sheet	**96,257,834**	58,865,541
Off balance sheet	**30,682,312**	25,628,371
Risk weighted assets	**126,940,146**	84,493,912
Risk asset ratio	**13.71%**	16.16%

4 Financial Risk Management *(continued)*

(f) Capital management *(continued)*

The Group's capital adequacy ratio as per effective regulatory framework, Basel II, at a minimum level of 8%, is analysed into two tiers as follows:

	Basel II 2008 AED'000	Basel II 2007 AED'000
Tier 1 capital		
Ordinary share capital	**1,976,614**	1,591,304
Retained earnings	**2,964,468**	800,000
Statutory and special reserve	**3,116,560**	1,591,304
General reserve and share option scheme	**6,826,677**	7,148,899
Foreign currency translation reserve	**19,183**	34,183
Subordinated convertible notes - equity component	**85,408**	72,926
Total	**14,988,910**	11,238,616
Tier 2 capital		
Fair value reserve	**(632,311)**	(24,384)
Qualifying subordinated liabilities	**3,050,938**	2,439,681
Allowance for collective impairment	**848,085**	244,703
Total	**3,266,712**	2,660,000
Deductions from capital		
Investments in associates	**(3,445)**	(3,342)
Total capital base	**18,252,177**	13,895,274
Risk weighted assets:		
Credit risk	**109,483,157**	75,193,414
Market risk	**1,660,442**	4,228,086
Operational risk	**7,451,696**	5,016,328
Risk weighted assets	**118,595,295**	84,437,828
Risk asset ratio	**15.39%**	16.46%

The Bank and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

5 Use of estimates and judgements

In the process of applying the Group's accounting policies, management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(i) Impairment charge on loans and advances and investments

Impairment losses are evaluated as described in accounting policy 3(b) (ix).

The Group evaluates impairment on loans and advances and investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the consolidated income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

(ii) Collective impairment charge on loans and advances

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(iii) Share option scheme

The fair value of the share option scheme is determined by marking to model. The model inputs comprise the share and exercise price, volatility, dividends, attrition rate and risk-free interest rate.

Critical accounting judgements in applying the Group's accounting policies include:

(a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held for trading" or "available for sale", the Group has determined it meets the description as set out in accounting policy 3(b) (iii, iv and v) respectively.

5 Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Group's accounting policies include: (continued)

(b) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

6 Financial assets and liabilities

Fair value of financial instruments

All financial assets and liabilities are measured at amortised cost except for derivatives, trading and non-trading investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques such as discounted cash flow method.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The fair values of due from banks, due to banks, repurchase agreements and customers' deposits, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

National Bank of Abu Dhabi PJSC

Notes to the consolidated financial statements

6 Financial assets and liabilities *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2008:

	Designated at fair value through profit or loss AED'000	**Held for trading AED'000**	**Available for sale AED'000**	**Loans and advances AED'000**	**Other amortised cost AED'000**	**Carrying amount AED'000**
Cash and balances with central banks	-	-	-	-	19,432,923	**19,432,923**
Investments at fair value through profit or loss	4,003	1,291,638	-	-	-	**1,295,641**
Due from banks	-	-	-	-	6,788,528	**6,788,528**
Loans and advances	1,018,665	-	-	110,745,602	-	**111,764,267**
Non-trading investments	-	-	14,982,756	-	-	**14,982,756**
Other assets	1,020,782	-	-	-	8,022,027	**9,042,809**
	2,043,450	**1,291,638**	**14,982,756**	**110,745,602**	**34,243,478**	**163,306,924**
Due to banks	-	-	-	-	25,796,996	**25,796,996**
Repurchase agreements with banks	-	-	-	-	4,535,345	**4,535,345**
Euro commercial paper	-	-	-	-	73,997	**73,997**
Customers' deposits	-	-	-	-	103,481,145	**103,481,145**
Medium-term borrowings	-	-	-	-	8,594,284	**8,594,284**
Other liabilities	762,392	-	-	-	3,591,177	**4,353,569**
Subordinated convertible notes	-	-	-	-	3,050,938	**3,050,938**
	762,392	**-**	**-**	**-**	**149,123,882**	**149,886,274**

National Bank of Abu Dhabi PJSC

Notes to the consolidated financial statements

6 Financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2007:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	-	36,399,339	36,399,339
Investments at fair value through profit or loss	18,681	1,182,044	-	-	-	1,200,725
Due from banks	-		-	-	8,158,270	8,158,270
Loans and advances	1,397,480	-	-	78,331,620	-	79,729,100
Non-trading investments	-	-	10,054,224	-	-	10,054,224
Other assets	351,625	-	-	-	2,934,928	3,286,553
	1,767,786	**1,182,044**	**10,054,224**	**78,331,620**	**47,492,537**	**138,828,211**
Due to banks	-	-	-	-	27,041,015	27,041,015
Repurchase agreements with banks	-	-	-	-	5,305,965	5,305,965
Euro commercial paper	-	-	-	-	105,912	105,912
Customers' deposits	-	-	-	-	81,736,671	81,736,671
Medium-term borrowings	-	-	-	-	7,405,149	7,405,149
Other liabilities	252,831	-	-	-	3,554,779	3,807,610
Subordinated convertible notes	-	-	-	-	2,439,681	2,439,681
	252,831	**-**	**-**	**-**	**127,589,172**	**127,842,003**

7 Cash and balances with central banks

	2008	2007
	AED'000	AED'000
Cash on hand	**680,880**	521,516
Balances with the Central Bank of the UAE		
cash reserve deposits	**4,499,734**	2,916,333
certificates of deposits	**12,080,000**	30,135,000
other deposits and balances	**764,279**	1,606,346
Balances with other central banks		
cash reserve deposits	**116,194**	385,811
other deposits and balances	**1,291,836**	834,333
	19,432,923	36,399,339

Cash reserve deposits are not available for the day to day operations of the Group.

8 Investments at fair value through profit or loss

Investments held for trading

	2008	2007
	AED'000	AED'000
Managed portfolios	**108,303**	360,882
Debt instruments	**1,183,335**	821,162
	1,291,638	1,182,044

Debt instrument under repurchase agreements included in trading investments as at 31 December 2008 amounted to nil *(2007: AED 182 million)* (refer note 15).

Investments designated at fair value through profit or loss

	2008	2007
	AED'000	AED'000
Equity securities	**4,003**	18,681
	1,295,641	1,200,725

9 Due from banks

	2008	2007
	AED'000	AED'000
Current, call and notice deposits	**715,367**	632,314
Fixed deposits	**6,073,161**	7,525,956
	6,788,528	8,158,270

10 Loans and advances

	2008	2007
	AED'000	AED'000
Gross loans and advances	**115,225,353**	82,561,098
Less: allowance for impairment	**(1,549,782)**	(910,131)
Less: interest suspended	**(1,911,304)**	(1,921,867)
Net loans and advances	**111,764,267**	79,729,100

An analysis of gross loans and advances by counter party at the reporting date is shown below:

	2008	2007
	AED'000	AED'000
Government sector	**13,802,226**	15,247,429
Public sector	**26,269,441**	13,353,112
Banking sector	**991,587**	988,885
Corporate / private sector	**51,524,649**	36,097,692
Personal / retail sector	**22,637,450**	16,873,980
Gross loans and advances	**115,225,353**	82,561,098

The movement in the allowance for impairment during the year is shown below:

	2008	2007
	AED'000	AED'000
At 1 January	**910,131**	917,624
Charge for the year		
Collective provision	**603,382**	43,742
Specific provision	**210,555**	99,429
Recoveries	**(42,607)**	(38,870)
Write-backs during the year	**(74,449)**	(66,101)
Amounts written off	**(57,230)**	(45,693)
At 31 December	**1,549,782**	910,131

11 Non-trading investments

	2008	2007
	AED'000	AED'000
Available-for-sale investments		
Unquoted investments	**419,530**	297,643
Less: allowance for impairment	**(16,712)**	(16,712)
	402,818	280,931
Quoted investments	**14,579,938**	9,773,293
Total non-trading investments	**14,982,756**	10,054,224

Unquoted investments include unquoted equity securities amounting to AED 117,978 thousand *(2007: 65,141 thousand)* which are carried at cost as their fair value cannot be reliably estimated.

Debt instruments under repurchase agreements included in quoted available for sale investments at 31 December 2008 amounted to AED 5,269 million *(2007: AED 5,124 million) (refer note 15).*

12 Other assets

	2008	2007
	AED'000	AED'000
Interest receivable	**1,105,898**	1,228,348
Acceptances	**1,094,262**	994,975
Sundry debtors and other receivables	**2,154,274**	711,605
Deferred tax asset	**28,356**	19,211
Reverse repurchase agreement	**3,667,593**	-
Positive fair value of derivatives (note 33)	**1,020,782**	351,625
	9,071,165	3,305,764

13 Premises and equipment

	Land, building and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work - in progress AED'000	Total AED'000
Cost					
Balance at 1 January 2007	520,211	181,739	120,707	40,607	863,264
Acquisitions	116,421	15,185	29,172	68,742	229,520
Transfer	1,320	16,257	970	(18,547)	-
Disposals / write off	(11,082)	(4,977)	(4,073)	-	(20,132)
Balance at 31 December 2007	626,870	208,204	146,776	90,802	1,072,652
Acquisitions	681,324	51,625	29,367	159,997	922,313
Transfer	98,801	40,364	4,705	(143,870)	-
Disposals / write off	(110,611)	(14,774)	(5,814)	-	(131,199)
Balance at 31 December 2008	**1,296,384**	**285,419**	**175,034**	**106,929**	**1,863,766**
Accumulated Depreciation					
Balance at 1 January 2007	215,361	131,129	92,723	-	439,213
Charge for the year	26,855	22,775	18,362	-	67,992
Disposals	(9,541)	(4,497)	(3,811)	-	(17,849)
Balance at 31 December 2007	232,675	149,407	107,274	-	489,356
Charge for the year	33,727	30,933	17,511	-	82,171
Disposals	(5,337)	(15,436)	(6,188)	-	(26,961)
Balance at 31 December 2008	**261,065**	**164,904**	**118,597**	**-**	**544,566**
Carrying amounts					
At 1 January 2007	304,850	50,610	27,984	40,607	424,051
At 31 December 2007	394,195	58,797	39,502	90,802	583,296
At 31 December 2008	**1,035,319**	**120,515**	**56,437**	**106,929**	**1,319,200**

14 Due to banks

	2008 AED'000	2007 AED'000
Banks		
Current, call and notice deposits	**1,104,647**	9,909,713
Fixed deposits	**16,945,933**	12,245,243
	18,050,580	22,154,956
Central banks		
Current and call	**570,396**	969
Fixed deposits	**7,176,020**	4,885,090
	7,746,416	4,886,059
	25,796,996	27,041,015

15 Repurchase agreements with banks

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying amount of financial assets at the reporting date amounted to AED 5,269 million *(2007: AED 5,306 million) (refer note 8 and 11)* and their associated financial liabilities amounted to AED 4,535 million *(2007: AED 5,306 million).*

16 Euro commercial paper

The Bank established USD 2,000,000 thousand Euro-Commercial Paper Programme (the "ECP Programme") for the issuance of Euro-commercial paper under the agreement dated 13 September 2006 with CITIBANK, N.A.

The notes outstanding as at the reporting date are denominated in USD carrying interest rates of 3.40% per annum *(2007: 5.41%)*. The original maturity of these notes is 12 months.

17 Customers' deposits

	2008 AED'000	2007 AED'000
By account:		
Current accounts	**21,837,491**	16,216,528
Savings accounts	**2,860,341**	2,117,568
Notice and time deposits	**76,484,974**	62,101,832
Certificates of deposit	**2,298,339**	1,300,743
	103,481,145	81,736,671

17 Customers' deposits *(continued)*

	2008	2007
	AED'000	AED'000
By sector:		
Government sector	**47,077,932**	31,273,703
Public sector	**18,368,892**	15,493,613
Corporate / private sector	**18,269,720**	19,426,286
Retail sector	**19,764,601**	15,543,069
	103,481,145	81,736,671

Customers' deposits include NBAD 3 Year 100% UAE Principal Protected Notes issued during 2007 having a nominal value of AED 713 million *(2007: AED 713 million)*. These notes are 100% principal protected at maturity by the Bank and are linked to Standard & Poor's International Finance Corporation Global Index for the United Arab Emirates. The Bank has purchased call options to cover this exposure.

Government deposits include special deposits received from Ministry of Finance maturing within 3 to 5 years which are exempt from the calculation of cash reserve requirement of Central Bank and carry an interest rate represented by the higher of 4% or 5 year US treasury rate plus a fixed margin.

18 Medium-term borrowings

	2008	2007
	AED'000	AED'000
Club loan and other facilities	**2,090,095**	-
Medium term notes	**6,504,189**	7,405,149
	8,594,284	7,405,149

During the year, the Bank established a USD 550 million Club loan facility repayable within five years carrying interest rate linked to LIBOR plus a fixed margin *(2007: Nil)*.

18 Medium-term borrowings *(continued)*

The following notes are outstanding at 31 December:

Currency	**Interest**	**Year of maturity**	**2008 AED'000**	2007 AED'000
JPY	3 M JPY LIBOR	2008	**-**	236,418
AUD	3 M AUD-BBSW	2008	**-**	64,278
AUD	3 M AUD-BBSW +1bps	2008	**-**	80,347
AUD	3 M AUD-BBSW	2008	**-**	96,416
CHF	3 M CHF LIBOR + 10bps	2009	**281,187**	257,213
JPY	0.05 per cent (fixed)	2009	**142,364**	112,580
JPY	0.22 per cent (fixed)	2009	**40,676**	32,166
USD	5.525 per cent (fixed)	2009	**73,460**	73,460
USD	3 M USD LIBOR+30bps	2010	**3,122,050**	3,122,050
JPY	3 M JPY LIBOR	2010	**162,247**	128,302
CHF	3 M CHF LIBOR + 10bps	2010	**702,403**	642,518
CHF	3 M CHF LIBOR + 10bps	2010	**104,956**	-
GBP	5.875 % (fixed)	2012	**1,874,846**	2,559,401
			6,504,189	7,405,149

19 Other liabilities

	2008 AED'000	2007 AED'000
Interest payable	**627,505**	681,803
Acceptances	**1,094,262**	994,975
Provision for staff terminal benefits	**325,686**	293,171
Accounts payable, sundry creditors and other liabilities	**1,869,410**	1,878,001
Negative fair value of derivatives (note 33)	**762,392**	252,831
Overseas income tax	**85,921**	81,312
	4,765,176	4,182,093

The movement in the provision for employees' staff terminal benefits was as follows:

19 Other liabilities *(continued)*

	2008 **AED'000**	2007 AED'000
Balance at 1 January	**293,171**	255,758
Provided during the year	**57,975**	52,919
Paid during the year	**(25,460)**	(15,506)
Balance at 31 December	**325,686**	293,171

The Group has provided for the overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2008 **AED'000**	2007 AED'000
At 1 January	**81,312**	76,136
Charge for the year (note 30)	**80,943**	68,590
Overseas income tax paid, net of recoveries	**(76,334)**	(63,414)
At 31 December	**85,921**	81,312

20 Subordinated convertible notes

	2008 **AED'000**	2007 AED'000
Liability component		
15 March 2006 issue	**1,095,190**	2,439,681
28 February 2008 issue	**1,955,748**	-
	3,050,938	2,439,681
Equity component		
15 March 2006 issue	**72,926**	72,926
28 February 2008 issue	**52,984**	-
Less: conversion of 15 March 2006 issue	**(40,502)**	-
	85,408	72,926

20 Subordinated convertible notes *(continued)*

15 March 2006 issue:

In accordance with the prospectus of AED 2.5 billion subordinated convertible notes due on 15 March 2016, some of the note holders exercised the option to convert these notes into the ordinary shares of the Bank on 15 March 2008 (second anniversary). The nominal value of notes converted amounted to AED 1,388,475 thousand resulting in an increase in Bank's share capital of AED 55,874 thousand, an increase in special reserve of AED 1,332,601 thousand and a decrease in the equity component of AED 40,502 thousand.

The above mentioned convertible notes are presented in the consolidated balance sheet as follows:

	2008	2007
	AED'000	AED'000
Proceeds from issue of convertible notes	**2,500,000**	2,500,000
Less: amount classified as equity	**(72,926)**	(72,926)
Carrying amount of liability component on initial recognition	**2,427,074**	2,427,074
Add: cumulative accreted interest	**16,089**	12,607
Less: converted liability component	**(1,347,973)**	-
Carrying amount of liability component	**1,095,190**	2,439,681

The Bank has the option to redeem these notes on the fifth anniversary and on a quarterly basis thereafter.

Interest on these notes is calculated on an effective yield basis by applying the effective interest rate for an equivalent non-convertible notes to the liability component of the convertible notes. The effective interest rate as at 31 December 2008 was 4.695% *(2007: 5.3069%)*.

As a result of the issue of bonus shares, the conversion price has been revised to AED 23.18 per share and communicated to Abu Dhabi Exchange on 14 April 2008.

28 February 2008 issue:

Further, during the year, the Bank issued AED 2 billion subordinated convertible notes due on 28 February 2018 in accordance with the approval of the Extraordinary General Meeting held on 5 September 2007. The notes bear an interest rate equal to 3 month EBOR less 0.25% paid quarterly.

20 Subordinated convertible notes *(continued)*

28 February 2008 issue: *(continued)*

These convertible notes are presented in the consolidated balance sheet as follows:

	2008 AED'000	2007 AED'000
Proceeds from issue of convertible notes	**2,000,000**	-
Less: amount classified as equity	**(52,984)**	-
Carrying amount of liability component on initial recognition	**1,947,016**	-
Add: cumulative accreted interest	**8,732**	-
Carrying amount of liability component	**1,955,748**	-

Interest on these notes is calculated on an effective yield basis by applying the effective interest rate for an equivalent non-convertible notes to the liability component of the convertible notes. The effective interest rate as at 31 December 2008 was 4.31% *(2007: nil)*.

At the option of the holder, the notes may be converted into ordinary shares of the Bank at any time during the period beginning from 28 May 2008 and ending on first call date being 28 February 2013 at the conversion price of AED 25.45 per ordinary share (subsequent to the issue of bonus shares). The Bank has the option to redeem these notes on the first call date being 28 February 2013.

The subordinated convertible notes form part of Tier II capital of the Bank.

Fair value:

The carrying amount of the liability component of the convertible notes reflects its current fair value based on discounted cash flows.

21 Capital and reserves

Share capital

The authorised share capital of the Bank comprise 2,000 million ordinary shares of AED 1 each *(2007: 2,000 million shares of AED 1 each)*. The issued and fully paid share capital at 31 December 2008 is comprised of 1,976,614 thousand ordinary shares of AED 1 each *(2007:1,591,304 thousand ordinary shares of AED 1 each)*.

Statutory reserve

The UAE Commercial Companies Law No. (8) of 1984 (as amended) and Article 56 of the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution to the shareholders.

21 Capital and reserves *(continued)*

Special reserve
Transfers to the special reserve are made in accordance with Union Law No. 10 of 1980 and Article 56 of the Bank's Articles of Association under which not less than 10% of the annual net profit is to be transferred to this reserve until it equals 50% of the paid-up share capital. The special reserve is not available for distribution to the shareholders.

Dividends
The following cash dividend was paid by the Group during the year ended 31 December:

	2008	2007
	AED'000	AED'000
Cash dividend AED 0.4 per ordinary share *(2007: AED 0.4)*	**658,871**	489,632
20% bonus shares *(2007: 30% bonus shares)* issued	**329,436**	367,224

Proposed dividends:
On 2 February 2009, a cash dividend of AED 0.2 per ordinary share and bonus shares of 40% *(2007: AED 0.4 cash dividend per ordinary share and 20% bonus share)* was proposed by the Board of Directors in respect of 2008 which is subject to the approval of the shareholders at the Annual General Meeting.

Other reserves
Other reserves include the following:

(i) General reserve
The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors to the shareholders.

(ii) Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	2008	2007
	AED'000	AED'000
Revaluation reserve – non-trading investment		
At 1 January	**(126,752)**	(199,817)
Increase in unrealised losses during the year	**(778,040)**	(20,201)
Net realised losses recognised in the consolidated income statement during the year	**57,927**	93,266
At 31 December	**(846,865)**	(126,752)

21 Capital and reserves *(continued)*

Hedging reserve – cash flow hedge		
At 1 January	**102,368**	(10,332)
Changes in fair value	**112,186**	112,700
At 31 December	**214,554**	102,368
Total at 31 December	**(632,311)**	(24,384)

The cash flow hedges are primarily against the medium term notes. The period when the cash flows are expected to occur and when they are expected to affect profit or loss is same that of the medium term borrowings *(see note 4c)*.

(iii) Foreign currency translation reserve
Foreign currency translation reserve represents the exchange differences arising from retranslating the opening net assets.

22 Share option scheme

The Bank introduced during the year a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the three years thereafter.

During the year, 14,653 thousand share options (*31 December 2007: Nil)* were granted to employees.

23 Interest income

	2008 **AED'000**	2007 AED'000
Due from central banks	**588,327**	977,477
Due from other banks	**506,463**	890,760
Held for trading investments	**61,176**	17,004
Non-trading investments	**640,653**	647,492
Loans and advances to customers	**5,586,551**	4,551,393
	7,383,170	7,084,126

24 Interest expense

	2008	2007
	AED'000	AED'000
Due to banks	**866,376**	661,060
Repurchase agreements with banks	**153,736**	350,646
Euro commercial paper	**3,908**	30,073
Customers' deposits	**2,201,310**	3,057,757
Certificates of deposit	**110,801**	67,477
Medium-term borrowings	**332,112**	362,100
Subordinated convertible notes	**107,362**	150,056
	3,775,605	4,679,169

25 Net fee and commission income

	2008	2007
	AED'000	AED'000
Fee and commission income		
Letters of credit	**116,446**	89,789
Letters of guarantee	**147,292**	118,506
Brokerage income, net	**71,292**	94,523
Initial Public Offerings (IPO)	**62,796**	3,734
Asset management and investment services	**146,331**	163,802
Risk participation fees	**40,448**	24,883
Retail and corporate lending fees	**428,002**	237,171
Low credit balance fees	**13,789**	44,118
Commission on transfers	**32,326**	29,575
Others	**154,225**	126,294
Total fee and commission income	**1,212,947**	932,395
Fee and commission expense		
Brokerage commission	**9,383**	1,842
Handling charges	**5,570**	3,925
Credit card charges	**49,028**	33,492
Other commission	**17,659**	7,859
Total fee and commission expense	**81,640**	47,118
Net fee and commission income	**1,131,307**	885,277

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

26 Net (loss) / gain on investments

	2008 **AED'000**	2007 AED'000
Net realised / unrealised (losses) / gains on investments at fair value through profit or loss and derivatives	**(201,649)**	103,435
Net gain from sale of non-trading investments	**2,484**	13,595
Dividend income	**5,943**	1,637
	(193,222)	118,667

27 Net foreign exchange gain

	2008 **AED'000**	2007 AED'000
Trading and retranslation gain	**314,346**	164,331
Dealings with customers	**109,693**	54,659
	424,039	218,990

28 General, administration and other operating expenses

	2008 **AED'000**	2007 AED'000
Staff costs	**900,907**	620,191
Other general and administration expenses	**463,025**	328,014
Depreciation	**82,171**	67,992
Donations and charity	**47,313**	38,172
	1,493,416	1,054,369

29 Impairment charge, net

	2008 AED'000	2007 AED'000
Collective provision for loans and advances (note 10)	**603,382**	43,742
Specific provision for loans and advances (note 10)	**210,555**	99,429
Write back of provisions for loans and advances (note 10)	**(74,449)**	(66,101)
Recovery of loan loss provisions (note 10)	**(42,607)**	(38,870)
Write-off of impaired loans and advances to consolidated income statement	**7,025**	5,261
Recovery of loans previously written off	**(965)**	(1,771)
Provisions for investment	**3,251**	-
Write off of intangible asset	**10,888**	-
	717,080	41,690

30 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated income statement for the year was as follows:

	2008 AED'000	2007 AED'000
Charge for the year (note 19)	**80,943**	68,590
Adjustments relating to deferred taxation	**(8,892)**	(4,182)
	72,051	64,408

31 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2008 AED'000	2007 AED'000
Cash and balances with central banks	**10,827,410**	22,379,160
Due from banks	**4,772,145**	1,966,157
Cash and cash equivalents	**15,599,555**	24,345,317

32 Commitments and contingencies

	2008 AED'000	2007 AED'000
Letters of credit	**27,266,572**	23,127,711
Letters of guarantee	**40,606,815**	32,753,194
Undrawn commitments to extend credit	**34,286,914**	20,413,092
Financial guarantees	**5,344,025**	4,086,518
	107,504,326	80,380,515

Capital and operating lease commitments at the reporting date is shown below:

	2008 AED'000	2007 AED'000
Commitments for future capital expenditure	**69,968**	83,044
Commitments for future operating lease payments for premises	**87,521**	17,577
	157,489	100,621
Total commitments and contingencies	**107,661,815**	80,481,136

Letters of credit and guarantee commit the Group to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Undrawn loan commitments, as at the reporting date, maturing after one year amounted to AED 14,626 million *(2007: AED 2,643 million).*

Commitments for operating lease payments falling due in more than one year amounted to AED 74. 6 million *(2007: AED 6.9 million)*.

33 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards, futures, swaps and options.

Forwards and futures contracts are commitments to either purchase or sell foreign currencies, commodities or financial instruments at a specified future date for a specified price.

Swaps are the agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate swaps and credit default swaps.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price either at fixed future date or at any time within a specified period.

Derivatives are measured at fair value by reference to published price quotations in an active market or counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, reference rate or index and is 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.

33 Derivative financial instruments *(continued)*

31 December 2008

	Positive market value AED'000	**Negative market value AED'000**	**Notional amount AED'000**	Notional amounts by term to maturity: Less than three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000
Held for trading:								
Interest rate swaps	541,816	567,107	30,720,183	734,600	5,037,870	1,165,693	16,676,092	7,105,928
Cross currency interest rate swap	2,383	2,405	2,941,796	-	-	2,941,796	-	-
Index linked swap	-	22,536	1,339,176	-	1,339,176	-	-	-
Currency swap	99,651	-	33,565,030	21,991,232	10,926,578	205,916	441,304	-
Bond option	-	-	713,008	-	-	713,008	-	-
Forward purchase of securities	-	-	39,991	-	-	-	39,991	-
Currency options and foreign exchange forwards	97,182	354	36,564,750	11,833,841	23,536,995	1,116,897	77,017	-
	741,032	**592,402**	**105,883,934**	**34,559,673**	**40,840,619**	**6,143,310**	**17,234,404**	**7,105,928**
Held as fair value hedges:								
Interest rate swaps	279,750	169,990	19,804,850	2,283,650	3,318,253	10,271,810	3,714,431	216,706
	279,750	**169,990**	**19,804,850**	**2,283,650**	**3,318,253**	**10,271,810**	**3,714,431**	**216,706**
Held as cash flow hedges:								
Cross currency interest rate swaps	-	-	1,433,833	-	-	1,433,833	-	-
	-	**-**	**1,433,833**	**-**	**-**	**1,433,833**	**-**	**-**
Total	**1,020,782**	**762,392**	**127,122,617**	**36,843,323**	**44,158,872**	**17,848,953**	**20,948,835**	**7,322,634**

33 Derivative financial instruments *(continued)*

31 December 2007

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Less than three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000
Held for trading:								
Interest rate swaps	65,188	41,273	17,454,782	-	8,039,384	1,846,784	423,612	7,145,002
Forward purchase of securities	-	-	334,984	334,984	-	-	-	-
Index and bond options	135,006	135,006	2,626,014	600,000	600,000	1,426,014	-	-
Currency options and foreign exchange forwards	23,272	2,949	58,107,824	31,814,829	21,765,232	1,576,768	2,950,995	-
	223,466	**179,228**	**78,523,604**	**32,749,813**	**30,404,616**	**4,849,566**	**3,374,607**	**7,145,002**
Held as fair value hedges:								
Interest rate swaps	25,791	73,603	15,682,597	29,384	6,790,149	2,941,341	4,994,072	927,651
	25,791	**73,603**	**15,682,597**	**29,384**	**6,790,149**	**2,941,341**	**4,994,072**	**927,651**
Held as cash flow hedges:								
Cross currency interest rate swaps	102,368	-	4,246,401	144,624	332,834	1,915,684	1,853,259	-
	102,368	**-**	**4,246,401**	**144,624**	**332,834**	**1,915,684**	**1,853,259**	**-**
Total	**351,625**	**252,831**	**98,452,602**	**32,923,821**	**37,527,599**	**9,706,591**	**10,221,938**	**8,072,653**

33 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain / loss respectively, arising on fair valuation of the hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances and non-trading investments.

Derivatives held for trading
The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge
The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances and non-trading investments. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge
The Group uses cross-currency interest rate swaps to hedge the foreign currency and interest rate risk arising from its issuance of Euro medium term floating rate notes in foreign currencies. The Group has substantially matched the critical terms of the cross-currency swaps and the Euro medium term floating rate notes.

34 Related parties

Identity of related parties

Related parties comprise major shareholders, directors and key management of the Group and their related concerns. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Pursuant to the provisions of Law No. 16 of 2006 concerning establishment of Abu Dhabi Investment Council (the "Council"), the erstwhile parent transferred its shareholding to the Council with effect from 1 February 2007.

The ultimate controlling party is the government of Abu Dhabi.

Compensation of directors and key management personnel

	2008	2007
	AED'000	AED'000
Key management compensation		
Short term employment benefits	**35,289**	23,916
Post employment benefits	**1,128**	581
Termination benefits	**920**	799

34 Related parties *(continued)*

Compensation of directors and key management personnel *(continued)*

	2008 AED'000	2007 AED'000
Directors' remuneration	**743**	3,710

Terms and conditions

Interest rates earned on loans and advances extended to related parties during the year have ranged from 3.20% to 18.00% per annum *(2007: 5% to 15% per annum)*.

Interest rates incurred on customers' deposits placed by related parties during the year have ranged from nil (non-interest bearing accounts) to 5.75% per annum *(2007: nil to 5.05% per annum)*.

Fees and commissions earned on transactions with related parties during the year have ranged from 0.50% to 1.00% per annum *(2007: 0.50% to 1% per annum)*.

Collaterals against lending to related parties range from being unsecured to fully secure.

Balances

Balances with related parties at the reporting date are shown below:

	Directors and key management AED'000	**Major shareholder AED'000**	**Others AED'000**	**2008 Total AED'000**	2007 Total AED'000
Loans and advances	**1,062,128**	**-**	**1,386,884**	**2,449,012**	2,415,462
Customers' deposits	**367,610**	**232,722**	**6,903,690**	**7,504,022**	14,959,810
Contingent liabilities	**893,348**	**-**	**84,549**	**977,897**	967,146

Others comprise Government of Abu Dhabi entities.

Transactions

Transactions carried out during the year with related parties are shown below:

34 Related parties *(continued)*

Transactions *(continued)*

	Directors and key management AED'000	**Major shareholder AED'000**	**Others AED'000**	**2008 Total AED'000**	2007 Total AED'000
Fee and commission income	**13,033**	**-**	**781**	**13,814**	4,909
Interest income	**35,600**	**-**	**124,855**	**160,455**	152,713
Interest expense	**10,400**	**20,323**	**208,413**	**239,136**	126,840

35 Segmental Information

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment capital expenditure is the total cost incurred during the year to acquire premises and equipment.

Primary segmental information:

The Group is organised into the following four major business segments, which form the basis on which the primary segment information is reported:

- *Domestic Banking*
  Includes loans and advances, investments, deposits, and other transactions and balances with corporate and retail customers.

- *International Banking*
  Includes loans and advances, investments, deposits, and other transactions and balances with corporate and retail customers outside the UAE.

- *Investment Banking*
  Includes investments, corporate finance, brokerage and asset management activities. Undertakes borrowings issue of debt securities, use of derivates for risk management purposes, and investing in liquid assets such as short term placement.

- *Head Office Support Functions / others*
  Includes certain loans and advances, deposits, investments and manages the Group's capital, certain corporate costs and start up costs of new units. Cost – sharing agreements are used to allocate central costs to business segments on a reasonable basis. The assets and reportable profit or loss of the Global private banking business are not reported separately due to insignificance.

Transactions between segments, and between branches within a segment, are conducted at estimated market rates on an arm's length basis. Interest is charged or credited to branches and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

National Bank of Abu Dhabi PJSC

Notes to the consolidated financial statements

35 Segmental Information *(continued)*

Segmental information for the year ended 31 December 2008 was as follows:

	Domestic Banking AED'000	Int'l Banking AED'000	Investment Banking AED'000	Head office support functions / other AED'000	Total AED'000
(a) Income statement:					
Operating income	2,711,636	985,391	965,349	638,906	5,301,282
Profit from operations before impairment charge and taxation	2,156,966	694,074	801,253	155,573	3,807,866
Net impairment charge on financial assets	(77,314)	(72,452)	(13,926)	(553,388)	(717,080)
Profit from operations before taxation	2,079,652	621,622	787,327	(397,815)	3,090,786
Overseas taxation	-	(78,966)	-	6,915	(72,051)
Net profit for the year					3,018,735
(b) Assets:					
Segment total assets	75,507,454	36,609,945	76,561,282	22,147,288	210,825,969
Inter segment balances					(46,171,489)
					164,654,480
Segment capital expenditure	85,405	59,932	9,513	767,463	922,313
Segment depreciation	21,415	22,571	4,057	34,128	82,171
(c) Liabilities:					
Segment liabilities	73,478,481	35,906,334	75,814,563	11,269,992	196,469,370
Inter segment balances					(46,171,489)
					150,297,881

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Notes to the consolidated financial statements

35 Segmental Information *(continued)*

Segmental information for the year ended 31 December 2007 was as follows:

	Domestic Banking AED'000	Int'l Banking AED'000	Investment Banking AED'000	Head office support functions / other AED'000	Total AED'000
(a) Income statement:					
Operating income	1,843,003	722,076	671,116	429,409	3,665,604
Profit from operations before impairment charge and taxation	1,456,150	481,607	556,658	116,820	2,611,235
Net impairment charge on financial assets	(1,905)	(57,354)	(1,196)	18,765	(41,690)
Profit from operations before taxation	1,454,245	424,253	555,462	135,585	2,569,545
Overseas taxation	-	(70,160)	-	5,752	(64,408)
Net profit for the year					2,505,137
(b) Assets:					
Segment total assets	55,448,529	34,192,641	56,112,214	17,378,964	163,132,348
Inter segment balances					(23,701,630)
					139,430,718
Segment capital expenditure	9,756	34,262	3,294	182,208	229,520
Segment depreciation	20,876	18,595	5,701	22,820	67,992
(c) Liabilities:					
Segment liabilities	49,803,359	34,141,083	55,568,931	12,404,743	151,918,116
Inter segment balances					(23,701,630)
					128,216,486

The Group is based primarily on its business segments. Further, the Group operates in two geographical markets, the UAE and Overseas. The geographical analysis has been based primarily upon the location of reporting branches and subsidiaries.

	United Arab Emirates		**Overseas**		**Total**	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000	**2008 AED'000**	2007 AED'000
Net profit for the year	**2,783,331**	2,348,085	**235,404**	157,052	**3,018,735**	2,505,137
Total assets	**144,176,197**	118,911,435	**27,003,337**	41,412,274	**171,179,534**	160,323,709
Inter segment balances					**(6,525,054)**	(20,892,991)
					164,654,480	139,430,718

36 Earnings per share

Earnings per share is calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year as set out below:

	2008	2007
Basic earnings per share:		
Net profit for the year attributable to equity shareholders (AED '000)	**3,018,735**	2,505,137
Weighted average number of ordinary shares:		
Ordinary shares as at 1 January ('000s)	**1,591,304**	1,224,080
Effect of bonus shares issued during 2007 ('000s)	**-**	367,224
Effect of bonus shares issued during 2008 ('000s)	**329,436**	329,436
Effect of conversion of subordinated debt ('000s)	**44,393**	-
Weighted average number of ordinary shares ('000s)	**1,965,133**	1,920,740
Basic earnings per share (AED)	**1.54**	1.30
Diluted earnings per share:		
Net profit for the year attributable to equity shareholders (AED '000)	**3,018,735**	2,505,137
Add: Interest on subordinated convertible notes (AED '000)	**107,362**	150,056
Add: Expenses on share option scheme (AED '000)	**7,214**	-
Net profit for the year attributable to equity shareholders for diluted earnings per share (AED '000)	**3,133,311**	2,655,193
Weighted average number of ordinary shares ('000s)	**1,965,133**	1,920,740
Effect of dilutive potential ordinary shares issued ('000s)	**113,835**	100,604
Effect of share option scheme ('000s)	**6,905**	-
Weighted average number of ordinary shares in issue for diluted earnings per share ('000s)	**2,085,873**	2,021,344
Diluted earnings per share (AED)	**1.50**	1.31

The effect of potential ordinary shares is antidilutive on the earning per share for the year 2007, therefore the basic earning per share is presented in the consolidated income statement.

37 Fiduciary activities

The Group held assets in trust or in a fiduciary capacity for its customers at 31 December 2008 amounting to AED 6,325 million *(2007: AED 12,675 million)*. Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

38 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in the consolidated financial statements of the Group. The SPEs are as follows:

Legal name	**Activities**	**Country of incorporation**	**Holding 2008**	Holding 2007
NBAD Fund Managers (Guernsey) Limited	Fund management	Bailiwick of Guernsey	100%	100%
NBAD Global Growth Fund PCC Limited	Fund management	Bailiwick of Guernsey	100%	100%
NBAD Private Equity 1	Fund management	Cayman Islands	58%	58%
NBAD Nominees Limited	Dormant	England	100%	100%

39 Comparative figures

Comparative figures have been reclassified to conform with the presentation for the current year.