

National Bank of Abu Dhabi PJSC

Condensed consolidated interim financial statements

30 June 2010

National Bank of Abu Dhabi PJSC

Condensed consolidated interim financial statements

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KPMG Lower Gulf Limited
Abu Dhabi Branch
P. O. Box 7613
Abu Dhabi
United Arab Emirates

Telephone +971 (2) 4014 800
Telefax +971 (2) 6327 612
Website www.ae-kpmg.com

Independent auditors' report on review of condensed consolidated interim financial information

The Shareholders
National Bank of Abu Dhabi PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of the National Bank of Abu Dhabi PJSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 30 June 2010, and the condensed consolidated interim statements of comprehensive income (comprising of a condensed consolidated statement of comprehensive income and a separate condensed consolidated interim income statement), changes in equity and cash flows for the six-month period then ended (the "interim financial information"). The Board of Directors of the Group is responsible for the preparation and presentation of the interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at and for the period ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Munther Dajani
Registration No.: 268


27 July 2010

National Bank of Abu Dhabi PJSC

Condensed consolidated interim statement of financial position

As at 30 June 2010

| | | | (Audited) |
|--------------------------------------|------|--------------------|--------------------|
| | | 30 Jun '10 | 31 Dec '09 |
| | Note | AED'000 | AED'000 |
| Assets | | | |
| Cash and balances with central banks | 6 | 15,032,614 | 18,056,843 |
| Investments at fair value | | | |
| through profit or loss | | 804,083 | 1,094,321 |
| Due from banks | | 19,770,641 | 19,520,709 |
| Reverse repurchase agreements | | 4,012,016 | 557,075 |
| Loans and advances | 7 | 135,037,325 | 132,258,330 |
| Non-trading investments | 8 | 19,709,733 | 18,954,398 |
| Other assets | | 5,173,512 | 4,317,495 |
| Premises and equipment | | 2,129,507 | 2,085,349 |
| Total assets | | 201,669,431 | 196,844,520 |
| Liabilities | | | |
| Due to banks | 9 | 32,269,277 | 30,776,663 |
| Repurchase agreements with banks | | 3,049,778 | 2,570,289 |
| Euro commercial paper | 10 | 32,773 | 175,221 |
| Customers' deposits | 11 | 112,161,058 | 121,205,104 |
| Medium-term borrowings | 12 | 16,076,111 | 13,236,743 |
| Other liabilities | | 7,333,549 | 5,587,598 |
| | | 170,922,546 | 173,551,618 |
| Subordinated notes | 13 | 8,402,950 | 2,852,334 |
| Total liabilities | | 179,325,496 | 176,403,952 |
| Equity | | | |
| Share capital | 14 | 2,391,703 | 2,174,275 |
| Statutory and special reserves | | 3,215,391 | 3,215,391 |
| Other reserves | | 9,873,341 | 7,784,164 |
| Government of Abu Dhabi | | | |
| tier 1 capital notes | 15 | 4,000,000 | 4,000,000 |
| Share option scheme | 16 | 29,604 | 18,888 |
| Subordinated convertible notes | | | |
| - equity component | 13 | 76,488 | 79,712 |
| Retained earnings | | 2,757,408 | 3,168,138 |
| Total equity | | 22,343,935 | 20,440,568 |
| Total liabilities and equity | | 201,669,431 | 196,844,520 |


Dr. Javan Salem Al Dhaheri
Deputy Chairman


Michael Tomalin
Chief Executive

The notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.
The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

National Bank of Abu Dhabi PJSC

Condensed consolidated interim income statement

For the six month period ended 30 June 2010

| | | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|---|----|--|--|--|--|
| Interest income | | 3,387,309 | 3,387,358 | 1,727,765 | 1,615,414 |
| Interest expense | | (973,744) | (1,273,985) | (504,938) | (578,072) |
| Net interest income | | 2,413,565 | 2,113,373 | 1,222,827 | 1,037,342 |
| Income from Islamic financing contracts | | 126,933 | 77,045 | 66,879 | 40,864 |
| Depositors' share of profits | | (24,657) | (28,067) | (13,302) | (12,509) |
| Net income from Islamic financing contracts | | 102,276 | 48,978 | 53,577 | 28,355 |
| Fee and commission income | | 701,316 | 578,407 | 343,698 | 327,703 |
| Fee and commission expense | | (73,404) | (67,929) | (39,092) | (34,802) |
| Net fee and commission income | | 627,912 | 510,478 | 304,606 | 292,901 |
| Net gain on investments | | 189,614 | 46,909 | 92,582 | 102,353 |
| Net foreign exchange gain | | 174,618 | 279,516 | 77,844 | 132,175 |
| Other operating income | 20 | 39,739 | 87,695 | 24,268 | 55,799 |
| | | 403,971 | 414,120 | 194,694 | 290,327 |
| Operating income | | 3,547,724 | 3,086,949 | 1,775,704 | 1,648,925 |
| General, administration and other operating expenses | | (1,003,950) | (871,535) | (510,010) | (436,453) |
| Profit before net impairment charge and taxation | | 2,543,774 | 2,215,414 | 1,265,694 | 1,212,472 |
| Net impairment charge | 19 | (463,443) | (499,877) | (238,317) | (285,857) |
| Profit before taxation | | 2,080,331 | 1,715,537 | 1,027,377 | 926,615 |
| Overseas income tax expense | | (48,683) | (38,553) | (26,564) | (20,096) |
| Net profit for the period | | 2,031,648 | 1,676,984 | 1,000,813 | 906,519 |
| Basic earnings per share (AED) | 21 | 0.799 | 0.701 | 0.418 | 0.379 |
| Diluted earnings per share (AED) | 21 | 0.770 | 0.684 | 0.404 | 0.367 |

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National Bank of Abu Dhabi PJSC

Condensed consolidated interim statement of cash flows

For the six month period ended 30 June 2010

| | 30 Jun '10 AED'000 | 30 Jun '09 AED'000 |
|--|-----------------------|-----------------------|
| Cash flows from operating activities | | |
| Profit before taxation | 2,080,331 | 1,715,537 |
| <i>Adjustments for:</i> | | |
| Depreciation | 58,060 | 46,561 |
| Accreted interest | 5,813 | 6,272 |
| Profit on buy back of subordinated convertible debt | (17,353) | (55,403) |
| Net impairment charge on assets | 479,109 | 511,406 |
| Foreign exchange translation adjustment | (202,102) | 159,068 |
| Share options scheme | 10,716 | 7,584 |
| | <u>2,414,574</u> | <u>2,391,025</u> |
| Change in investments at fair value through profit or loss | 273,985 | 170,338 |
| Change in due from banks and central banks | (419,672) | 1,329,462 |
| Change in reverse repurchase agreements with banks | (3,454,941) | 483,518 |
| Change in loans and advances | (3,142,361) | (12,916,802) |
| Change in other assets | (654,303) | 1,484,257 |
| Change in due to banks | 1,492,614 | 5,562,532 |
| Change in repurchase agreements with banks | 479,489 | (2,210,271) |
| Change in customers' deposits | (3,440,405) | 8,192,555 |
| Change in other liabilities | 1,747,694 | 383,905 |
| | <u>(4,703,326)</u> | <u>4,870,519</u> |
| Overseas income tax paid | (52,632) | (73,394) |
| Net cash (used in) / from operating activities | <u>(4,755,958)</u> | <u>4,797,125</u> |
| Cash flows from investing activities | | |
| Purchase of non-trading investments, net of proceeds from sale or maturity | (552,226) | (382,730) |
| Purchase of premises and equipment, net of disposals | (139,219) | (82,690) |
| Net cash used in investing activities | <u>(691,445)</u> | <u>(465,420)</u> |
| Cash flows from financing activities | | |
| Dividends paid | (217,428) | (592,984) |
| Issue of medium term borrowing | 3,812,221 | - |
| Redemption of medium term borrowing | (974,165) | (286,277) |
| Redemption of euro commercial paper | (142,448) | (73,997) |
| Proceeds from issuance of Tier 1 capital notes | - | 4,000,000 |
| Buy back of subordinated convertible notes | (104,746) | (159,100) |
| Payment on tier 1 capital notes | (120,000) | - |
| Net cash from financing activities | <u>2,253,434</u> | <u>2,887,642</u> |
| (Decrease) / increase in cash and cash equivalents | <u>(3,193,969)</u> | <u>7,219,347</u> |
| Cash and cash equivalents at 1 January | 27,617,187 | 15,599,555 |
| Cash and cash equivalents at 30 June | <u>24,423,218</u> | <u>22,818,902</u> |
| Cash and cash equivalents comprise: | | |
| <i>Contractual maturity within three months:</i> | | |
| Cash and balances with central banks | 9,200,330 | 9,892,287 |
| Due from banks | 15,222,888 | 12,926,615 |
| | <u>24,423,218</u> | <u>22,818,902</u> |

The notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

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National Bank of Abu Dhabi PJSC

Condensed consolidated interim statement of comprehensive income

For the six month period ended 30 June 2010

| | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|---|--|--|--|--|
| Net profit for the period | 2,031,648 | 1,676,984 | 1,000,813 | 906,519 |
| <i>Adjustments considered in the equity statement:</i> | | | | |
| Exchange difference on translation of foreign operations | (1,369) | (16,008) | (1,606) | 661 |
| Change in the fair value reserve | 206,944 | (346,045) | (100,996) | (130,875) |
| Directors' remuneration | (4,950) | (4,452) | - | - |
| Buy back of subordinated convertible notes | 1,030 | 1,698 | 1,030 | 1,154 |
| Other comprehensive income / (expense) | 201,655 | (364,807) | (101,572) | (129,060) |
| Total comprehensive income for the period | 2,233,303 | 1,312,177 | 899,241 | 777,459 |

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National Bank of Abu Dhabi PJSC

Condensed consolidated interim statement of changes in equity

For the six month period ended 30 June 2010

| | Share capital AED'000 | Statutory reserve AED'000 | Special reserve AED'000 | General reserve AED'000 | Government of Abu Dhabi Tier 1 capital notes AED'000 | Share options scheme 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 2009 | 1,976,614 | 988,307 | 2,128,253 | 6,819,463 | - | 7,214 | (632,311) | 19,183 | 85,408 | 2,964,468 | 14,356,599 |
| Net profit for the period | - | - | - | - | - | - | - | - | - | 1,676,984 | 1,676,984 |
| Net movement in fair value reserve (note 17) | - | - | - | - | - | - | (346,045) | - | - | - | (346,045) |
| Directors' remuneration | - | - | - | - | - | - | - | - | - | (4,452) | (4,452) |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (16,008) | - | - | (16,008) |
| Buy back of subordinated convertible notes | - | - | - | 1,698 | - | - | - | - | - | - | 1,698 |
| Total comprehensive income for the period | - | - | - | 1,698 | - | - | (346,045) | (16,008) | - | 1,672,532 | 1,312,177 |
| Buy back of subordinated convertible notes (note 13) | - | - | - | - | - | - | - | - | (5,696) | - | (5,696) |
| Options granted to staff | - | - | - | - | - | 7,584 | - | - | - | - | 7,584 |
| Dividend paid for 2008 (note 14) | - | - | - | - | - | - | - | - | - | (592,984) | (592,984) |
| Bonus shares issued (note 14) | 197,661 | - | - | (197,661) | - | - | - | - | - | - | - |
| Tier 1 capital introduced during the period (note 15) | - | - | - | - | 4,000,000 | - | - | - | - | - | 4,000,000 |
| Balance at 30 June 2009 | 2,174,275 | 988,307 | 2,128,253 | 6,623,500 | 4,000,000 | 14,798 | (978,356) | 3,175 | 79,712 | 4,044,016 | 19,077,680 |
| Balance at 1 January 2010 | 2,174,275 | 1,087,138 | 2,128,253 | 8,623,500 | 4,000,000 | 18,888 | (845,223) | 5,887 | 79,712 | 3,168,138 | 20,440,568 |
| Net profit for the period | - | - | - | - | - | - | - | - | - | 2,031,648 | 2,031,648 |
| Net movement in fair value reserve (note 17) | - | - | - | - | - | - | 206,944 | - | - | - | 206,944 |
| Directors' remuneration | - | - | - | - | - | - | - | - | - | (4,950) | (4,950) |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (1,369) | - | - | (1,369) |
| Buy back of subordinated convertible notes | - | - | - | 1,030 | - | - | - | - | - | - | 1,030 |
| Total comprehensive income for the period | - | - | - | 1,030 | - | - | 206,944 | (1,369) | - | 2,026,698 | 2,233,303 |
| Buy back of subordinated convertible notes (note 13) | - | - | - | - | - | - | - | - | (3,224) | - | (3,224) |
| Payment on Tier 1 capital note (note 15) | - | - | - | - | - | - | - | - | - | (120,000) | (120,000) |
| Option granted to staff | - | - | - | - | - | 10,716 | - | - | - | - | 10,716 |
| Dividend paid for 2009 (note 14) | - | - | - | - | - | - | - | - | - | (217,428) | (217,428) |
| Bonus shares issued (note 14) | 217,428 | - | - | (217,428) | - | - | - | - | - | - | - |
| Transfer to general reserve (note 14) | - | - | - | 2,100,000 | - | - | - | - | - | (2,100,000) | - |
| Balance at 30 June 2010 | 2,391,703 | 1,087,138 | 2,128,253 | 10,507,102 | 4,000,000 | 29,604 | (638,279) | 4,518 | 76,488 | 2,757,408 | 22,343,935 |

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The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

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. These condensed consolidated interim financial statements as at and for the period ended 30 June 2010 comprise the Bank and its subsidiaries (together referred to as the “Group”). The Group is primarily engaged in corporate, retail, private and investment banking activities and Islamic banking activities; it carries out its operations through its local and overseas branches, subsidiaries and representative offices located in United Arab Emirates, Bahrain, Egypt, France, Oman, Kuwait, Sudan, Libya, the United Kingdom, Switzerland, Hong Kong, Jordan and the United States of America.

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 are available upon request from the Bank’s registered office, P.O. Box 4, Abu Dhabi, United Arab Emirates or at <http://www.nbad.ae>.

2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

These condensed consolidated interim financial statements were approved on behalf of the Board of Directors on 27 July 2010.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

4 Estimates

The preparation of condensed consolidated interim 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.

In preparing these condensed consolidated interim financial statements, except as highlighted below, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2009.

Effective 1 April 2010, the Bank revised the estimated useful lives of buildings to become 20 to 50 years. This revision has been applied prospectively. The impact of this revision for the current reporting period is trivial.

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

5 Financial risk management

Credit risk

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. The carrying amount of financial assets represents the maximum credit exposure.

| | Due from Banks | | Loans and advances | | Non-trading investments | |
|--|-------------------|-------------------|--------------------|--------------------|-------------------------|-------------------|
| | (Audited) | | (Audited) | | (Audited) | |
| | 30 Jun | 31 Dec | 30 Jun | 31 Dec | 30 Jun | 31 Dec |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Individually impaired | | | | | | |
| Substandard | - | - | 1,238,980 | 961,141 | - | - |
| Doubtful | 979 | 979 | 595,567 | 554,127 | 20,055 | 20,055 |
| Loss | - | - | 939,146 | 810,924 | - | - |
| Gross amount | 979 | 979 | 2,773,693 | 2,326,192 | 20,055 | 20,055 |
| Interest suspended | - | - | (700,767) | (639,519) | - | - |
| Specific allowance for impairment | (979) | (979) | (1,365,545) | (1,053,422) | (16,712) | (16,712) |
| Carrying amount | - | - | 707,381 | 633,251 | 3,343 | 3,343 |
| Past due but not impaired | | | | | | |
| Other loans especially mentioned (OLEM)* | | | | | | |
| Carrying amount | - | - | 3,197,639 | 3,342,278 | - | - |
| Interest suspended | - | - | (30,076) | (18,247) | - | - |
| Carrying amount | - | - | 3,167,563 | 3,324,031 | - | - |
| Neither past due nor impaired | 19,770,641 | 19,520,709 | 132,846,909 | 129,905,136 | 19,706,390 | 18,951,055 |
| Collective allowance for impairment | - | - | (1,684,528) | (1,604,088) | - | - |
| Carrying amount | 19,770,641 | 19,520,709 | 135,037,325 | 132,258,330 | 19,709,733 | 18,954,398 |

*OLEM includes loans which are past due but not impaired for which the value of security / collateral is sufficient to cover outstanding amounts and specific impairment is not appropriate at the current condition.

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

6 Cash and balances with central banks

Cash and balances with central banks include Certificates of Deposit with the Central Bank of UAE in the amount of AED 5,800 million (31 December 2009: AED 8,450 million).

7 Loans and advances

| | 30 Jun '10 | (Audited) 31 Dec '09 |
|--------------------------------|--------------------|-------------------------|
| | AED'000 | AED'000 |
| Gross loans and advances | 138,818,241 | 135,573,606 |
| Less: allowance for impairment | (3,050,073) | (2,657,510) |
| Less: interest suspended | (730,843) | (657,766) |
| Net loans and advances | 135,037,325 | 132,258,330 |

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

| | 30 Jun '10 | (Audited) 31 Dec '09 |
|----------------------------|--------------------|-------------------------|
| | AED'000 | AED'000 |
| Government sector | 16,555,713 | 16,732,726 |
| Public sector | 36,942,459 | 36,169,590 |
| Banking sector | 1,153,990 | 1,062,590 |
| Corporate / private sector | 60,199,115 | 56,344,763 |
| Personal / retail sector | 23,966,964 | 25,263,937 |
| Gross loans and advances | 138,818,241 | 135,573,606 |

The movement in the allowance for impairment during the six month period is shown below:

| | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|--------------------------------|--|--|--|--|
| At the beginning of the period | 2,657,510 | 1,549,782 | 2,854,711 | 1,750,209 |
| Charge for the period | | | | |
| - Collective impairment charge | 80,440 | 297,612 | 24,955 | 145,442 |
| - Specific impairment charge | 410,941 | 244,983 | 224,232 | 159,568 |
| Recoveries | (14,615) | (11,200) | (5,613) | (5,258) |
| Write-backs during the period | (68,234) | (34,939) | (39,811) | (15,792) |
| Write-offs during the period | (15,969) | (22,233) | (8,401) | (10,164) |
| At the reporting date | 3,050,073 | 2,024,005 | 3,050,073 | 2,024,005 |

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

7 Loans and advances (*continued*)

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

| | 30 Jun '10 AED'000 | (Audited) 31 Dec '09 AED'000 |
|--|-----------------------|------------------------------------|
| Ijara | 5,324,587 | 3,955,827 |
| Murabaha | 468,307 | 424,541 |
| Mudaraba | - | 17,459 |
| Gross Islamic financing contracts | 5,792,894 | 4,397,827 |
| Less: allowance for impairment | (59,437) | (56,093) |
| Less: suspended profit | (32,539) | (32,140) |
| Net Islamic financing contracts | 5,700,918 | 4,309,594 |

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

| | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|--|--|--|--|--|
| At the beginning of the period | 56,093 | 38,298 | 60,120 | 40,978 |
| Collective charge / (reversal) for the period | 3,981 | 9,872 | (46) | 5,275 |
| Amounts written-off and other adjustments | (637) | (2,896) | (637) | (979) |
| At the reporting date | 59,437 | 45,274 | 59,437 | 45,274 |

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

8 Non-trading investments

Non-trading investments include financial instruments of AED 3,439 million (31 December 2009: AED 3,110 million) given under repurchase agreements and derivative arrangements in the normal course of business.

9 Due to banks

Due to banks include balances due to central banks amounting to AED 8,719 million (31 December 2009: AED 3,809 million).

10 Euro commercial paper

The Bank established a USD 2 billion 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.

11 Customers’ deposits

| | 30 Jun ‘10 AED’000 | (Audited) 31 Dec ‘09 AED’000 |
|----------------------------|-----------------------|------------------------------------|
| By sector: | | |
| Government sector | 28,395,070 | 41,954,852 |
| Public sector | 22,482,093 | 23,072,481 |
| Corporate / private sector | 35,968,706 | 32,318,751 |
| Retail sector | 25,315,189 | 23,859,020 |
| | 112,161,058 | 121,205,104 |

Customers’ deposits include NBAD 3 Year 100% UAE Principal Protected Notes issued during 2007 having a nominal value of AED 110 million (31 December 2009: 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.

During the period special deposits amounting to AED 5,606 million (31 December 2009: AED 5,606 million) received from the UAE Ministry of Finance with original contractual maturities of 3 and 5 years were converted into Tier 2 notes maturing in December 2016 (see note 13).

Islamic customers’ deposits

Included in the above customers’ deposits are the following Islamic customer deposits:

| | 30 Jun ‘10 AED’000 | (Audited) 31 Dec ‘09 AED’000 |
|-------------------|-----------------------|------------------------------------|
| Wakala deposits | 2,104,692 | 1,449,915 |
| Mudaraba deposits | 88,284 | 77,119 |
| | 2,192,976 | 1,527,034 |

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

12 Medium-term borrowings

| | 30 Jun '10 | (Audited) 31 Dec '09 |
|--------------------------------|-------------------|-------------------------|
| | AED'000 | AED'000 |
| Club loan and other facilities | 3,122,050 | 2,824,651 |
| Medium-term notes | 12,954,061 | 10,412,092 |
| | 16,076,111 | 13,236,743 |

The following medium-term notes were outstanding as at reporting dates:

| Currency | Interest | Maturity | 30 Jun '10 | (Audited) 31 Dec '09 |
|-----------------|------------------------------|-----------------|-------------------|-------------------------|
| | | | AED'000 | AED'000 |
| CHF | 3 M CHF LIBOR + 10bps | Mar 2010 | - | 677,894 |
| CHF | 3 M CHF LIBOR + 10bps | Mar 2010 | - | 106,629 |
| JPY | 3 M JPY LIBOR | Jun 2010 | - | 119,741 |
| USD | 3 M USD LIBOR+ 30bps | Dec 2010 | 3,048,219 | 3,048,109 |
| GBP | 5.875 per cent (fixed) | Feb 2012 | 1,934,378 | 2,055,980 |
| EUR | 3 M EURIBOR + step up spread | Jun 2012 | 158,637 | - |
| EUR | 3 M EURIBOR + step up spread | Jul 2012 | 530,327 | 620,718 |
| USD | 3M USD LIBOR+ 120bps | Oct 2012 | 73,238 | 73,460 |
| USD | 4.5 per cent (fixed) | Sep 2014 | 3,223,709 | 3,122,050 |
| HKD | 3.8 per cent (fixed) | Sep 2014 | 194,151 | 187,541 |
| HKD | 3.9 per cent (fixed) | Oct 2014 | 118,617 | 114,372 |
| USD | 4.25 per cent (fixed) | Mar 2015 | 2,814,740 | - |
| MYR | 4.75 per cent (fixed) | Jun 2015 | 552,099 | - |
| HKD | 4.32 per cent (fixed) | Sep 2017 | 148,744 | 140,206 |
| HKD | 4.45 per cent (fixed) | Sep 2019 | 157,202 | 145,392 |
| | | | 12,954,061 | 10,412,092 |

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Notes to the condensed consolidated interim financial statements

13 Subordinated notes

| | 30 Jun '10 AED'000 | (Audited) 31 Dec '09 AED'000 |
|--|-----------------------|------------------------------------|
| Subordinated note - Ministry of Finance Tier II note | 5,664,709 | - |
| Subordinated convertible notes | 2,738,241 | 2,852,334 |
| | <u>8,402,950</u> | <u>2,852,334</u> |

Ministry of Finance Tier II note

During the period, special deposits amounting to AED 5,606 million (31 December 2009: AED 5,606 million) received from the UAE Ministry of Finance which were previously classified as customers' deposits were converted into Tier 2 notes, maturing in December 2016 (see note 11). The notes carry a fixed step up coupon and are paid quarterly in arrears. The Bank has hedged the interest rate exposure on these notes.

| | 30 Jun '10 AED'000 | (Audited) 31 Dec '09 AED'000 |
|--|-----------------------|------------------------------------|
| <i>Subordinated convertible notes</i> | | |
| <i>Liability component</i> | | |
| 15 March 2006 issue | 1,098,550 | 1,097,429 |
| 28 February 2008 issue | 1,639,691 | 1,754,905 |
| | <u>2,738,241</u> | <u>2,852,334</u> |
| <i>Equity component</i> | | |
| 15 March 2006 issue | 72,926 | 72,926 |
| 28 February 2008 issue | 52,984 | 52,984 |
| Less: conversion of 15 March 2006 issue | (40,502) | (40,502) |
| Less: buy back of 28 February 2008 issue | (8,920) | (5,696) |
| | <u>76,488</u> | <u>79,712</u> |

15 March 2006 issue:

As a result of the issue of bonus shares, the conversion price has been revised to AED 23.22 per share and communicated to Abu Dhabi Securities Exchange on 16 March 2010.

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Notes to the condensed consolidated interim financial statements

13 Subordinated notes (*continued*)

28 February 2008 issue:

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 the date falling 10 trading days prior to the first call date which being 28 February 2013 at the conversion price of AED 21.02 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.

During the period, the Bank purchased back AED 121,710 thousand (*30 June 2009: AED 215,000 thousand*) of this issue from the market for AED 104,746 thousand (*30 June 2009: AED 159,100 thousand*). As a result, the total outstanding liability and equity components were decreased by AED 118,486 thousand (*30 June 2009: AED 209,304 thousand*) and AED 3,224 thousand (*30 June 2009: AED 5,696 thousand*), respectively. Further, a gain on the extinguishment in the amount of AED 17,353 thousand (*30 June 2009: AED 55,403 thousand*) was recognised in the consolidated income statement.

14 Share capital

At the Annual General Meeting held on 15 March 2010, the shareholders of the Bank approved a cash dividend of AED 0.1 per ordinary share (*31 December 2009: AED 0.3 per ordinary share*) and an increase in the share capital through a 10% bonus shares issue of 217,428 thousand ordinary shares of AED 1 each (*31 December 2009: 10% bonus shares issue of 197,661 thousand ordinary shares of AED 1 each*) amounting to AED 217,428 thousand (*31 December 2009: AED 197,661 thousand*). Accordingly, the issued and paid up share capital as at 30 June 2010 is comprised of 2,391,703 thousand ordinary shares of AED 1 each (*31 December 2009: 2,174,275 thousand ordinary shares of AED 1 each*).

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors to the shareholders. On 15 March 2010 the AGM approved the transfer of AED 2.1 billion (*31 December 2009: AED 2 billion*) to general reserve.

15 Government of Abu Dhabi Tier 1 capital notes

Under the Government of Abu Dhabi 2009 Bank capitalisation programme, the Bank issued regulatory tier 1 capital notes (the "Notes"). The Notes are perpetual, subordinated, unsecured and carry a fixed coupon during the initial period and are paid semi annually in arrears. After the initial period, the Notes attract a coupon rate of 6 month EIBOR plus a fixed margin. The Bank may elect not to pay a coupon at its own discretion. The note holders do not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

During the period, the Group elected to service coupon on the Government of Abu Dhabi tier 1 capital notes amounting to AED 120,000 thousand (*30 June 2009: nil*).

16 Share option scheme

As a result of the issue of bonus shares, the conversion price was revised on 24 March 2010 to AED 15.55 per share and communicated to option holders.

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

17 Fair value reserve

| | 30 Jun '10 AED'000 | 30 Jun '09 AED'000 |
|---|-----------------------|-----------------------|
| <i>Revaluation reserve – non-trading investment</i> | | |
| At 1 January | (841,388) | (846,865) |
| Net change in fair value | 203,109 | (281,989) |
| At 30 June | (638,279) | (1,128,854) |
| <i>Hedging reserve – cash flow hedges</i> | | |
| At 1 January | (3,835) | 214,554 |
| Net change in fair value | 3,835 | (64,056) |
| At 30 June | - | 150,498 |
| Total at 30 June | (638,279) | (978,356) |

18 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and un-drawn loan commitments.

Undrawn commitments to extend credit amounted to AED 29,194 million (31 December 2009: AED 31,890 million).

There were no other significant changes in contingent liabilities and commitments during the period.

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

19 Net impairment charge

| | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|--|--|--|--|--|
| Collective provision for loans and advances | 80,440 | 297,612 | 24,955 | 145,442 |
| Specific provision for loans and advances | 410,941 | 244,983 | 224,232 | 159,568 |
| Write back of provisions for loans and advances | (68,234) | (34,938) | (39,811) | (15,791) |
| Recovery of loan loss provisions | (14,615) | (11,200) | (5,613) | (5,257) |
| Write-off of impaired loans and advances income statement | 2,708 | 3,750 | 1,703 | 1,923 |
| Recovery of loans previously written off | (1,051) | (330) | (406) | (28) |
| Provisions for investment | 16,253 | - | 16,253 | - |
| Impairment of non financial assets | 37,001 | - | 17,004 | - |
| | 463,443 | 499,877 | 238,317 | 285,857 |

20 Other operating income

| | Six month period ended 30 Jun '10 AED'000 | Six month period ended 30 Jun '09 AED'000 | Three month period ended 30 Jun '10 AED'000 | Three month period ended 30 Jun '09 AED'000 |
|--|--|--|--|--|
| Profit on buy back of subordinated convertible debt | 17,353 | 55,403 | 17,353 | 34,739 |
| Others | 22,386 | 32,292 | 6,915 | 21,060 |
| | 39,739 | 87,695 | 24,268 | 55,799 |

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

21 Earnings per share

Earnings per share is calculated by dividing the net profit after deduction of Tier 1 capital note payment by the weighted average number of ordinary shares in issue during the period as set out below:

| | Six month period ended 30 Jun '10 | Six month period ended 30 Jun '09 | Three month period ended 30 Jun '10 | Three month period ended 30 Jun '09 |
|--|---|---|---|---|
| Basic earnings per share: | | | | |
| Net profit for the period (AED '000) | 2,031,648 | 1,676,984 | 1,000,813 | 906,519 |
| Less: Payment on Tier 1 capital note (AED '000) | (120,000) | - | - | - |
| Net profit after payment of Tier 1 capital note (AED '000) | 1,911,648 | 1,676,984 | 1,000,813 | 906,519 |
| Weighted average number of ordinary shares: | | | | |
| Ordinary shares as at the beginning of the period ('000s) | 2,174,275 | 1,976,614 | 2,174,275 | 1,976,614 |
| Effect of bonus shares issued during 2010 ('000s) | 217,428 | 217,428 | 217,428 | 217,428 |
| Effect of bonus shares issued during 2009 ('000s) | - | 197,661 | - | 197,661 |
| Weighted average number of ordinary shares ('000s) | 2,391,703 | 2,391,703 | 2,391,703 | 2,391,703 |
| Basic earnings per share (AED) | 0.799 | 0.701 | 0.418 | 0.379 |
| Diluted earnings per share: | | | | |
| Net profit after payment of Tier 1 capital note (AED '000) | 1,911,648 | 1,676,984 | 1,000,813 | 906,519 |
| Add: Interest on subordinated convertible notes (AED '000) | 35,559 | 59,244 | 20,199 | 25,078 |
| Add: Expenses on share option scheme (AED '000) | 10,716 | 7,584 | 5,358 | 3,792 |
| Net profit for the period for calculating diluted earnings per share (AED '000) | 1,957,923 | 1,743,812 | 1,026,370 | 935,389 |
| Weighted average number of ordinary shares ('000s) | 2,391,703 | 2,391,703 | 2,391,703 | 2,391,703 |
| Effect of dilutive potential ordinary shares issued ('000s) | 131,410 | 141,659 | 131,410 | 141,659 |
| Effect of share option scheme ('000s) | 19,796 | 14,653 | 19,796 | 14,653 |
| Weighted average number of ordinary shares in issue for diluted earnings per share ('000s) | 2,542,909 | 2,548,015 | 2,542,909 | 2,548,015 |
| Diluted earnings per share (AED) | 0.770 | 0.684 | 0.404 | 0.367 |

National Bank of Abu Dhabi PJSC

Notes to the condensed consolidated interim financial statements

22 Segmental information

| | Domestic Banking AED'000 | Int'l Banking AED'000 | Financial Markets AED'000 | Corporate & Investment Banking AED'000 | Global Wealth AED'000 | Islamic Business AED'000 | Head Office AED'000 | Total AED'000 |
|---|--------------------------------|-----------------------------|---------------------------------|---|-----------------------------|--------------------------------|---------------------------|---------------------|
| <i>As at and for the six month period ended 30 June 2010:</i> | | | | | | | | |
| Operating income | 859,334 | 457,330 | 446,922 | 1,331,214 | 74,155 | 72,719 | 306,050 | 3,547,724 |
| Profit / (loss) before taxation | 447,219 | 259,140 | 396,456 | 1,034,077 | 6,892 | 48,278 | (111,731) | 2,080,331 |
| Overseas taxation | - | (49,088) | - | - | 405 | - | - | (48,683) |
| Net profit / (loss) for the period | 447,219 | 210,052 | 396,456 | 1,034,077 | 7,297 | 48,278 | (111,731) | 2,031,648 |
| Segment total assets | 32,942,309 | 33,631,815 | 69,753,164 | 92,661,387 | 4,093,402 | 7,209,975 | 41,033,015 | 281,325,067 |
| Inter segment balances | | | | | | | | (79,655,636) |
| Total assets | | | | | | | | 201,669,431 |

Note: Collective provision of the Group's United Arab Emirates operation are recognised centrally in the Head office accounts and are not allocated to the business units.

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Notes to the condensed consolidated interim financial statements

22 Segmental information *(continued)*

| | Domestic Banking AED'000 | Int'l Banking AED'000 | Financial Markets AED'000 | Corporate & Investment Banking AED'000 | Global Wealth AED'000 | Islamic Business AED'000 | Head Office AED'000 | Total AED'000 |
|---|--------------------------------|-----------------------------|---------------------------------|---|-----------------------------|--------------------------------|---------------------------|---------------------|
| <i>For the six month period ended 30 June 2009:</i> | | | | | | | | |
| Operating income | 696,584 | 418,993 | 519,873 | 975,373 | 73,528 | 39,622 | 362,976 | 3,086,949 |
| Profit / (loss) before taxation | 339,670 | 244,505 | 479,371 | 808,016 | 11,527 | 15,327 | (182,879) | 1,715,537 |
| Overseas taxation | - | (41,346) | - | - | 2,793 | - | - | (38,553) |
| Net profit / (loss) for the period | 339,670 | 203,159 | 479,371 | 808,016 | 14,320 | 15,327 | (182,879) | 1,676,984 |
| <i>As at 31 December 2009:</i> | | | | | | | | |
| Segment total assets | 31,463,106 | 31,602,154 | 85,061,442 | 86,822,705 | 2,572,203 | 5,978,862 | 29,955,449 | 273,455,921 |
| Inter segment balances | | | | | | | | (76,611,401) |
| Total assets | | | | | | | | 196,844,520 |

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Notes to the condensed consolidated interim financial statements

23 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, Abu Dhabi Investment Council (the "Council") was established which holds 70.48% of the share capital of the Bank.

The ultimate controlling party is the government of Abu Dhabi.

Terms and conditions

Interest rates earned on loans and advances extended to related parties during the period have ranged from 1.00% to 13.00% per annum (30 June 2009: 1.82% to 13.38% per annum).

Interest rates incurred on customers' deposits placed by related parties during the period have ranged from nil (non-interest bearing accounts) to 2.00% per annum (30 June 2009: nil (non-interest bearing accounts) to 5.00% per annum).

Fees and commissions earned on transactions with related parties during the period have ranged from 0.50% to 1.00% per annum (30 June 2009: 0.50% to 1.00% 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 30 Jun '10 AED'000 | Major shareholder 30 Jun '10 AED'000 | Others 30 Jun '10 AED'000 | Total 30 Jun '10 AED'000 | (Audited) Total 31 Dec '09 AED'000 |
|-------------------------------|--|---|--|---|---|
| Loans and advances | 834,275 | 183,650 | 1,427,319 | 2,445,244 | 2,522,335 |
| Customers' deposits | 369,245 | 21,248 | 9,802,455 | 10,192,948 | 18,094,893 |
| Commitments and contingencies | 449,059 | - | 27,553,395 | 28,002,454 | 23,033,890 |

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Notes to the condensed consolidated interim financial statements

23 Related parties (continued)

Transactions

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

| | Directors and key management | Major shareholder | Others | Total | Total |
|---------------------------|---|------------------------------|-------------------|-------------------|-------------------|
| | 30 Jun '10 | 30 Jun '10 | 30 Jun '10 | 30 Jun '10 | 30 Jun '09 |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Fee and commission income | 2,212 | 12 | - | 2,224 | 5,741 |
| Interest income | 14,519 | 4,618 | 42,372 | 61,509 | 76,261 |
| Interest expense | 1,717 | 157 | 26,190 | 28,064 | 71,856 |

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the six month period ended 30 June 2010 (*six month period ended 30 June 2009: AED nil*).

Compensation of directors and management personnel

Key management compensation is as shown below:

| | Six month period ended | Six month period ended | Three month period ended | Three month period ended |
|--------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| | 30 Jun '10 | 30 Jun '09 | 30 Jun '10 | 30 Jun '09 |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Short term employment benefits | 22,785 | 24,041 | 11,512 | 12,298 |
| Post employment benefits | 620 | 610 | 310 | 303 |
| Termination benefits | 612 | 541 | 307 | 272 |
| | 24,017 | 25,192 | 12,129 | 12,873 |

Due to the pervasiveness of the ultimate controlling party and related concerns, it is impractical to fully disclose related party transactions as described by International Accounting Standard 24.

24 Comparative figures

Certain comparative figures have been reclassified to conform with the presentation for the current period.