

EMERGING STRONGER



04
EMERGING STRONGER

06 Theme of the Year

14
OVERVIEW

16 ADCB Group at a Glance
18 2020 Highlights & Awards

20
STRATEGIC REVIEW

22 Chairman's Message
26 Group CEO's Message
34 Economic Overview
36 Business Model
38 Group Strategy
41 Risk Management
48 Our Principal Risks
54 Group CFO's Message
58 Management Discussion & Analysis

64
BUSINESS REVIEW

66 Consumer Banking Group
72 Wholesale Banking Group
78 Treasury and Investments Group
80 Property Management
82 Group Business Services
86 Human Resources

90
SUBSIDIARIES

91 Al Hilal Bank
94 ADCB Egypt
96 Other Subsidiaries

98
ESG REVIEW

100 Sustainability at ADCB
102 Governance and Ethics
105 Accessible Banking
107 UAE Centricity
110 Success Enablers
111 COVID-19 Response

112
CORPORATE GOVERNANCE

114 Board of Directors
120 Executive Management
126 Corporate Governance Report

162
FINANCIAL STATEMENTS

162 Pro Forma Financial Statements
167 Consolidated Financial Statements



HIS HIGHNESS SHEIKH KHALIFA BIN ZAYED AL NAHYAN

PRESIDENT OF THE UNITED ARAB EMIRATES AND RULER OF ABU DHABI
SUPREME COMMANDER OF THE UAE ARMED FORCES



HIS HIGHNESS SHEIKH MOHAMMED BIN ZAYED AL NAHYAN

CROWN PRINCE OF ABU DHABI
DEPUTY SUPREME COMMANDER OF THE UAE ARMED FORCES
CHAIRMAN OF THE ABU DHABI EXECUTIVE COUNCIL

EMERGING STRONGER

We came together as one during this unprecedented year — our people, customers and community united in purpose and resilient in spirit, rising to every challenge, and emerging stronger.



AED 917 million

Captured synergies in 2020, surpassing target and on track to exceed AED 1 billion in 2021

OUR INTEGRATION JOURNEY

We completed our integration in record time, whilst delivering greater than expected synergies.

Our successful integration with Union National Bank (UNB) and Al Hilal Bank was completed in April 2020, ahead of schedule. Within just 11 months of the legal merger, the final milestone consisting of the IT systems integration and transfer of accounts was delivered with no service disruption to our customers. Meticulous planning and flawless execution of the integration were decisive factors in the upgrades of our 2021 run-rate synergy target to AED 1 billion. As at the end of 2020, total one-off integration costs stood at AED 545 million (excluding capex), well below the budget of AED 980 million.



11 months

Full integration completed in an accelerated timeframe of less than half the initial target

THE GLOBAL PANDEMIC

We continued to serve and support our customers, whilst rapidly responding to the needs of our employees and communities.

Our resilient culture and shared values guided the Bank as it successfully navigated the challenges of 2020. In response to COVID-19, we acted swiftly to protect the health and safety of our employees and to ensure continuity of business operations and service. Leveraging our financial strength and expertise, ADCB was the first bank in the UAE to roll out a comprehensive economic relief package for customers, in conjunction with the UAE Central Bank's Targeted Economic Support Scheme (TESS). We also extended our support to the community, providing laptops for school children across the UAE and launching a campaign to express gratitude to healthcare workers.

Continuous engagement

Our broad and sustained commitment to support our diverse stakeholders during COVID-19



FOR OUR EMPLOYEES

Provision of remote working facilities for staff, with gradual return to office

Enhanced hygiene, sanitation and protective measures at branches and offices

Additional training and awareness communications



FOR OUR CUSTOMERS

Wide-ranging measures to alleviate financial burden of individuals and businesses

No disruption of services with increased digital offerings

Full allocation of TESS with over 67,000 customers receiving total deferrals of over AED 11 bn



FOR OUR COMMUNITY

AED 5 million for 'Not all heroes wear capes' campaign to express gratitude and alleviate financial burden of 35,000 healthcare workers across the UAE

AED 4 million partnership with the Ministry of Education to provide laptops to students for distance learning



FOR OUR SHAREHOLDERS

Solid financial performance despite macro-economic headwinds, with a dividend payout ratio of 49%

Robust corporate governance and prudent risk management

OUR DIGITAL TRANSFORMATION

We continued to drive engagement across our digital channels, whilst accelerating our digital transformation.

Our strategic focus on customer-centric digital transformation picked up pace in 2020, catalysed by our promise to provide business and service continuity, despite the logistical challenges related to the pandemic. We introduced new digital solutions to continue to make our products and services more accessible and convenient for our customers. Our investment in technology is streamlining processes and enhancing efficiency across the organisation, positioning the Bank for future growth.

62 digital releases

Double the number in 2019

2020 Digital Achievements



130,000+

New Consumer Banking digital subscribers



117,000+

Customers onboarded through the Hayyak app, accounting for 69% of all new-to-bank customers



96%

ProCash digital transactions (up from 91% in 2019) and ProTrade digital transactions reached 60% (up from 48% in 2019)



74%

Rise in customer registrations on Al Hilal Bank digital platform

THE BANK OF THE FUTURE



We continued to deliver a strong performance based on solid fundamentals, whilst building the bank of the future.

New 5-year strategy

Growth strategy focused on acceleration of digital transformation

Our robust balance sheet and financial discipline are founded on a rigorous approach to corporate governance and risk management. We have adopted a new five-year strategy to take the Bank into the next phase of sustainable growth and increased profitability. We move forward with confidence, as a driver of positive change in our communities and a progressive force at the heart of the UAE banking sector.



Robust governance

A commitment to best-practice governance has served the Bank well through market cycles and remains critical to its fortitude and growth



Sustainable growth

Full alignment with the UAE's Economic Vision





KHALID AL HAMMADI is an award-winning Emirati cityscape and architecture photographer, whose work has been featured in leading print and digital publications in the UAE and around the world. His photographs appear on pages 14, 20, 34, 64, 98 and 112 of this Annual Report.

ADCB is proud to support Khalid and other Emirati creative talent to fulfil their potential and achieve their dreams.

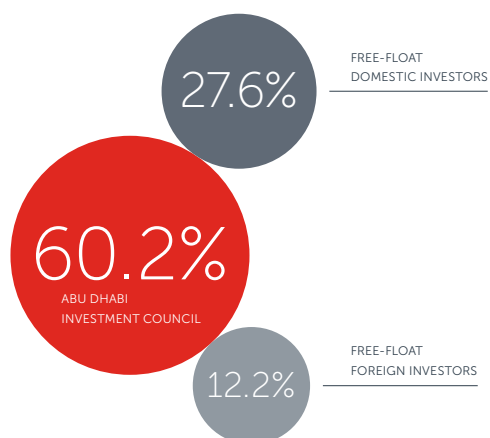
OVERVIEW

ADCB GROUP AT A GLANCE

An acknowledged leader in the UAE banking sector, ADCB creates value through a range of products and services that support more than a million customers. ADCB follows a UAE-centric growth strategy, making a significant contribution to the economy and the communities we serve. Our best-in-class customer service and strong digital offerings help to propel us towards our goal — to be the number-one bank of choice in the UAE.

As a full-service commercial bank, ADCB offers a comprehensive offering spanning retail banking, wealth management, private banking, corporate banking, commercial banking, cash management, investment banking, corporate finance, foreign exchange, interest rate and currency derivatives, Islamic products, project finance and property management services.

OWNERSHIP STRUCTURE



BY THE NUMBERS

AED 411 bn

TOTAL ASSETS

54

BRANCHES IN THE UAE

1 mn+

TOTAL CUSTOMERS

RATINGS

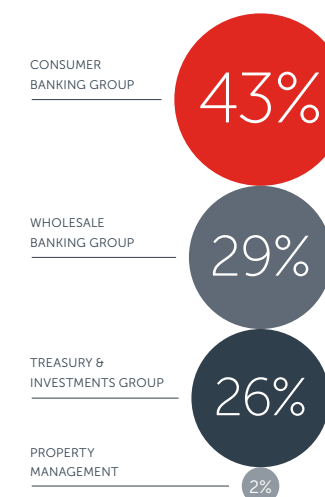
A/A-1/Negative

S&P GLOBAL RATINGS

A+/F1/Stable

FITCH RATINGS

CONTRIBUTION TO OPERATING INCOME IN 2020



GEOGRAPHIC FOOTPRINT

ADCB's branch footprint returned to its pre-merger levels of 54 branches in the UAE during 2020, complemented by 13 Al Hilal Bank branches. ADCB also retained its significant presence of 47 branches in Egypt and 4 branches in Kazakhstan, while exiting non-core markets during the year, in line with its UAE-centric growth strategy.

2020 HIGHLIGHTS & AWARDS

FINANCIAL HIGHLIGHTS

AED 7.945 bn AED 4.526 bn

OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES
(At par YoY)

OPERATING EXPENSES
(-14% YoY)

AED 127.5 bn 35.1%

CASA DEPOSITS
(+25% YoY)

COST TO INCOME RATIO¹
(2019: 37.0%)

17.22%

CAPITAL ADEQUACY RATIO
(2019: 16.30%)

156.8%

LIQUIDITY COVERAGE RATIO
(2019: 127.3%)

AED 0.27

RECOMMENDED DIVIDEND PER SHARE²

¹ Excluding integration-related costs

² Subject to approval by shareholders at the Annual General Meeting

STRATEGIC HIGHLIGHTS



1,482

EMIRATIS
EMPLOYED



11 months

ACCELERATED TIMEFRAME
FOR INTEGRATION
COMPLETION



AED 8.9 bn

FULL ALLOCATION OF TESS
WITH A CUMULATIVE TOTAL
OF AED 11 BN

2020 AWARDS

Payments —
ADCB Mobile Token

GLOBAL FINANCE

Best Trade Finance
Bank in UAE

GTR — MENA COUNTRY AWARDS 2020

World's Best Bank for
Commodity Finance

GLOBAL FINANCE

Best Homepage

WEBBY HONOREE IN WEBSITES
CATEGORY, THE WEBBY AWARDS

ADCB TouchPoints
Loyalty Programme

GULF CUSTOMER EXPERIENCE
SILVER AWARDS

Cash Management —
Virtual Accounts Phase 2
API Integration

GLOBAL FINANCE

UAE Domestic Trade
Finance Bank of the Year

ASIAN BANKING AND
FINANCE MAGAZINE

STRATEGIC REVIEW

CHAIRMAN'S MESSAGE

ADCB is one of the UAE's most significant players in the national economy. As the new Chairman of ADCB, I am honoured to participate with the various stakeholders in building on the Bank's strengths to capitalise on the fundamental transformation we see taking place across many sectors of activity.

KHALDOON KHALIFA AL MUBARAK
Chairman

We enter a new year with developments that are literally affecting the entire world. The onset of COVID-19 has been one of the greatest challenges our nation has faced. Therefore, it is a point of pride that ADCB has played its part in the national response by protecting our economy and the livelihoods of key stakeholders.

In 2020, the organisation and every team member demonstrated immense care, resilience and adaptability to ensure ongoing support for our commercial and retail customers and the community through the pandemic.

These efforts, supported by the guidance and initiatives from our Government and underpinned by our shareholders' confidence in the organisation, have enabled ADCB to continue operating effectively as a vital pillar of the UAE's banking sector.

Despite the complex operating environment of 2020, the merger with Union National Bank and Al Hilal Bank concluded successfully. Moreover, and to accompany the transformation we see in both the business and consumer segments, ADCB has adopted a five-year development strategy that aims to broaden the Bank's product offering and coverage, and at the same time strengthen its financial performance.

The Board is entirely confident that ADCB will support the UAE's strong recovery from the pandemic and serve as a progressive and agile banking institution to underpin the next 50 years of national progress.

LOCAL SUPPORT

In conjunction with the UAE Central Bank's launch of its AED 50 billion 'Targeted Economic Support Scheme', ADCB proudly became the first bank in the UAE to introduce a wide-reaching relief package for customers. ADCB deployed its full AED 8.9 billion TESS entitlement and extended a cumulative total of over AED 11 billion in support to over 67,000 customers.

We expressed our gratitude to the 35,000 healthcare workers that are also ADCB customers, by activating a cashback programme for grocery and food delivery purchases made using their ADCB credit or debit cards.

INSTITUTIONAL GROWTH

During April 2020, the eleven-month integration process with Union National Bank and Al Hilal Bank concluded. The merger establishes ADCB as the third-largest financial institution by assets in the UAE, with over one million customers.

ADCB is now entering its next phase of development, focusing on digital transformation, delivering sustainable growth and continuously improving and innovating our customer experience.

Our human capital will always be our most important asset. We remain committed to attracting talented individuals, providing ongoing professional development and recognising excellence to ensure we continually raise the bar.



35,000

Healthcare workers supported

FINANCIAL PERFORMANCE

ADCB's robust balance sheet, combined with its disciplined governance and risk management, ensured stability in the face of a challenging operating environment and protected all stakeholders' interests.

This institutional strength was evident as the Bank continued to benefit from a stable loan book and greater efficiencies and substantial capital and liquidity positions.

For the 2020 financial year, the Board has recommended a cash dividend of AED 0.27 per share, translating to a pay-out of AED 1.878 billion, or 49% of the net profit. This dividend is subject to approval at the Annual General Meeting.

RECOGNISING SUPPORT

On behalf of the Board and all at ADCB, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces; to His Highness Sheikh Mansour Bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs; and the UAE Central Bank for their guidance and ongoing support.

I also wish to acknowledge and thank our outgoing Chairman H.E. Eissa Mohamed AlSuwaidi, under whose insightful leadership ADCB has grown into a robust financial institution.

I also extend sincere gratitude to H.E. Mohamed Dhaen AlHamli and Mohamed Hamad Almehairi, who stepped down from our Board in 2020 and to Abdulla Khalil Almutawa who stepped down earlier this year after 24 years on the Board.

KHALDOON KHALIFA AL MUBARAK
Chairman



AED 0.27

Recommended dividend per share¹

¹ Subject to approval by shareholders at the Annual General Meeting



“ADCB will support the UAE's strong recovery from the pandemic and serve as a progressive and agile banking institution to underpin the next 50 years of national progress.”

GROUP CEO'S MESSAGE

In testing times, ADCB has stood tall as a beacon of resilience and stability in the UAE banking sector. Inspired by our people, values and commitments to the nation, we have continued to deliver on our promises to our customers and other stakeholders in 2020, despite the unprecedented business and operating environment.



ALAA ERAIQAT
Group Chief Executive Officer
Member of the Board of Directors

EMERGING STRONGER TOGETHER

Achieving a full-year net profit of AED 3.809 billion in 2020, ADCB delivered a 8.3% return on average tangible equity and a dividend pay-out ratio of 49%.¹

In spite of the uncertainty inflicted on markets and communities around the world by the global COVID-19 pandemic, we have remained resolute and maintained a strong balance sheet. Indeed, the conviction, resilience and innovation in the Group's response to these challenges have been highly encouraging.

ADCB has again proven that the Bank remains steadfast in adversity. A decade ago, we emerged from the global economic crisis fitter and stronger, and with a renewed focus on implementing best practice governance. Through our successful integration with Union National Bank (UNB) and Al Hilal Bank (AHB), we have clearly demonstrated the capacity of our people and systems to navigate through complexity to build a more powerful banking Group. Now, as the global community comes together to overcome the effects of the pandemic, ADCB is fully equipped to fulfil its commitments to support our stakeholders through the uncertain environment.

We have benefitted from an experienced and dynamic new Board of Directors in 2020, with H.E. Khaldoun Al Mubarak elected as Chairman.

Working in conjunction with our new Board, ADCB responded to the COVID-19 crisis in an urgent and rigorous manner, rolling out a comprehensive and highly successful programme overseen by our dedicated Business Continuity Management (BCM) team.

Having moved swiftly to implement a series of hygiene and safety measures, the BCM team maintained continuity through a combination of onsite and remote working that safeguarded our employees and customers. Throughout, we have sustained our high service standards while effectively managing operational and information security risks.

As a result of our efficient transition to remote working and acceleration of our digital transformation programme, not one of our services has been interrupted, ensuring full and seamless business continuity for all our customers. In light of our outstanding efforts through this critical period, we received the 'BCI Middle East 2020 Continuity and Resilience Team Award' from the leading global body in the field, Business Continuity Institute.

Ultimately, we have learned some valuable and enduring lessons from the events of 2020, developing an understanding of our priorities that will forever shape the way we live and work, while solidifying our path toward further digitisation and cost efficiency.

We have come together with our nation's leaders, our customers and our community, demonstrating our resilience and determination through the darkest days of this crisis and positioning the Bank to emerge stronger and continue to provide sustainable value for all our stakeholders."

¹ Subject to approval by shareholders at the Annual General Meeting.



SUPPORTING OUR COMMUNITY

As a major bank in the UAE with over one million customers, ADCB recognises the importance of building strong relationships across the broader community and is well equipped to be a positive role model, especially in difficult times.

With the launch of our 'Not all heroes wear capes' campaign, we allocated AED 5 million to express appreciation for the frontline healthcare workers battling coronavirus across the UAE. As a mark of our gratitude to these exceptional individuals, we offered the 35,000 healthcare workers who bank with us an unannounced refund on grocery purchases.

Given the inherent difficulties of the transition to home-based learning for school children, we also partnered with the Ministry of Education to back their distance-learning programme, donating AED 4 million to purchase and distribute laptops to students across the UAE.

To facilitate everyday processes for our micro-business and SME customers in what had been a difficult year for the sector, ADCB collaborated with Visa to launch ADCB Pace Pay in the third quarter of 2020. An innovative approach to enabling transition to cashless transactions, ADCB Pace Pay is the UAE's first virtual point of sale (POS) app that allows businesses to collect card payments through their mobile phones instead of physical POS machines.

The Bank is proud to be part of the UAE Central Bank's timely and critical economic support programme in response to COVID-19, the Targeted Economic Support Scheme (TESS). We were the first bank in the UAE to roll out relief measures for retail and corporate customers such as deferment of loan instalments, fee reductions and waivers, rescheduling of working capital facilities and temporary interest rate reductions.

ADCB extended a cumulative total of AED 11.018 billion of support to over 67,000 individuals and businesses from inception of TESS through to the end of December 2020. We are pleased to announce that the Bank has received AED 4.819 billion in repayments, resulting in outstanding deferrals reducing to AED 6.199 billion as of 31 December 2020. We would like to express our gratitude to the UAE Central Bank for their unwavering support during this critical time.

We also continued to engage with the Central Bank's National Loan Scheme, designed to reduce the debt burden among UAE Nationals by offering lower interest rates. Between April 2019 and December 2020, we provided significant interest rate relief to approximately AED 4 billion worth of loans. The difference between the original contracted rate and the revised rate over the term of the loan was borne by the Bank and has benefitted over 2,500 Emirati customers.

INTEGRATION AND SYNERGIES

2020 saw the completion of our historic integration of Union National Bank and Al Hilal Bank, significantly ahead of schedule and beating regional and global benchmarks, despite occurring at a time in which more than 90% of our staff were working remotely. A mere 11 months following the legal merger in May 2019, we had created a fully unified, powerful and resilient banking Group.



AED 11.018 bn

Support to over 67,000 individuals and businesses from inception of TESS through to the end of December 2020

Following rigorous and meticulous planning, the IT integration and transfer of former UNB customer accounts to ADCB systems were concluded smoothly in April 2020 during the COVID-19 lock down. This represented the first full banking system migration and integration conducted remotely anywhere in the world, and its success illustrates the strength of our culture and values, as well as the commitment and resilience of our people.

This fast-tracked and highly effective process, completed without compromising the Bank's exceptional customer service standards, resulted in two successive upward revisions of our run-rate synergy target to AED 1 billion. Having made significant progress in 2020, we are firmly on track to reach this target in 2021.

The unified and streamlined ADCB Group is now both better equipped to navigate macro-economic challenges and has the scale to invest further in the infrastructure, systems and people needed to deliver outstanding service and sustainable growth.

A RESILIENT STRATEGY FOCUSED ON DIGITAL

Our digital transformation programme, which has served us well in the face of the global pandemic, lies at the core of our new five-year strategy for growth and increased profitability.

Having completed a Group-wide review, we have set ambitious performance-linked goals across the whole organisation to ensure ADCB enhances efficiencies and drives customer-centric digital innovation, while remaining true to our commitment to robust governance.

We made strong progress in 2020. Our digital platforms have gained momentum, with the rate of adoption by our customers increasing substantially. Registered users on the Bank's mobile and internet banking increased by 19% over last year to 827,000 customers. ADCB is investing significantly in our digital platforms, with 62 successful digital launches in 2020 including new products, services and enhanced app features, double the total in 2019.

Meanwhile, Al Hilal Bank is spearheading digital transformation in the Islamic Banking retail segment, propelled by a bold vision to become the first fully digital Shari'ah-compliant retail bank in the UAE.



ADCB remains focused on its core geography and core businesses, as we exit the majority of our overseas offices and operations whilst retaining our presence in Egypt — rebranded as ADCB Egypt in 2020 — and in Kazakhstan, through Al Hilal Bank.

DELIVERING CUSTOMER EXCELLENCE

As exemplified by the delivery of uninterrupted services during the difficult circumstances in 2020, our dedication to our customers is second to none.

According to the results of an ongoing, comprehensive series of Fast Feedback Surveys, our customer loyalty continues to grow steadily. In 2020, ADCB achieved a net promoter score (NPS²) of 67%, representing a 27 NPS points increase over a 2014 survey baseline, proving that we continue to listen to, and meet, the needs of our customers by building a better ADCB every day.

Furthermore, a major report³ in April 2020 showed that ADCB recorded the highest increase in brand value of any company in the UAE over a 12-month period.

RESPONDING PROACTIVELY TO CHALLENGES

In the first quarter of 2020, London Stock Exchange-listed NMC Health PLC made a series of disclosures that revealed significant misrepresentation of its debt position in its financial accounts.

As one of more than 80 major local, regional and international financial institutions that extended credit to NMC Health, ADCB took a decisive and proactive approach to addressing the issue to defend the interests of the Bank and its stakeholders.

By successfully filing in the UK High Court for NMC Health to be taken into administration, ADCB initiated an orderly process for the turn-around of the company and repayment of debt, while ensuring the continuation of uninterrupted healthcare services at a critical period as the COVID-19 became a global pandemic.

ADCB is working closely with the administrators and other creditors on a restructuring plan that safeguards operations, builds value and protects the Bank's interests. The company adopted a three-year business plan, with ADCB arranging and participating in a financing facility to ensure operational continuity and to allow for restructuring. The financial performance of NMC Health improved notably in the second half of 2020, and the company has successfully pursued the sale of non-core assets.

We continue to actively explore all avenues to resolve the NMC Health issue, in accordance with relevant international practices and accounting standards.



827,000

Registered mobile and internet banking users, up 19% from 2019

² In line with our digital transformation strategy and the impact of COVID-19, NPS methodology was changed to digital channels in H2'20, therefore reported NPS scores are for Q1'20 only.

³ Brand Finance UAE 25 2020 report, April 2020.

OUR PEOPLE & CULTURE

As we look back over the achievements of 2020, it becomes clear that placing trust in our people and the systems we have built together was entirely the right approach. I am exceptionally proud of our employees and the way they have responded to such unique challenges.

Together, we have successfully implemented an extensive series of new procedures and safety measures, whilst ensuring compliance requirements were fully met. In short, our people delivered when it mattered most, driven by our deeply felt culture and guiding values of integrity, care, ambition, respect and discipline.

I am therefore pleased to report that our people feel safe and secure, and are supportive of the way we work. In our latest employee engagement survey in October 2020, we achieved an overall engagement index score of 87%, which was 8% higher than when the survey was last conducted in 2018. 91% of our entire workforce responded to the survey, demonstrating how the challenges faced this year have only served to bring us closer together.

“I am exceptionally proud of our employees and the way in which they have responded to such unique challenges.”



AN EMIRATISATION LEADER

In line with our approach to stable and sustainable growth, ADCB Group continues to be a major employer of Emiratis in the UAE banking sector, with 1,482 UAE Nationals in the full-time employee base. UAE Nationals occupy 30% of positions on our Executive Committee and 95% of management roles across our branches.

True to our legacy of promoting home-grown talent, we consistently exceed the Emiratisation targets set by the UAE Central Bank and have continued to recruit and train high-calibre Emiratis virtually during the lockdown. We also remain fully committed to empowering Emirati women, who account for 78% of our UAE National workforce today.

Meanwhile, Al Hilal Bank continues to lead the entire sector in terms of its Emiratisation credentials. Today, UAE Nationals account for 50% of the Bank's full-time staff.

Among our most prominent plans for 2020–2021, we aim to build a base of talented UAE Nationals that can influence and contribute to the Group's strategy and digital transformation programme.

LOOKING TO THE FUTURE

As we enter 2021, resilience has been complemented by a growing sense of hope and ambition, buoyed by our collective success in overcoming the entirely unprecedented challenges of the past year.

Our ambitious goals remain — we are committed to our digital transformation, as well as to realising growth and increasing market share whilst maintaining a disciplined approach to controlling costs and achieving efficiencies.

As a major financial institution in the UAE, ADCB is proud to support the continued investment in social and economic initiatives undertaken to promote the nation's sustainable growth, creating lasting positive change for the benefit of our stakeholders and the wider community.

Naturally, our priorities in 2021 are also to stay safe and healthy — for our families, our teams and the communities we serve — and to be confident in the invaluable lessons we have learned in 2020. However, far from focusing on what we have overcome, our sights are fixed firmly on the horizon — on the opportunities to experiment and innovate, whilst always remaining true to the discipline and values that have seen us through a singularly uncertain and turbulent year.

I would like to take this opportunity to thank both our Chairman, H.E. Khaldoon Al Mubarak, and his predecessor, H.E. Eissa Mohamed AlSuwaidi, who stepped down in 2020, as well as the members of our Board and our executive management team for their leadership and continuous support this year. I also wish to thank all our customers for their trust and every one of our employees who have worked so hard to turn this unique and challenging year into a positive story for our Bank.

ALA'A ERAIQAT

Group Chief Executive Officer
Member of the Board of Directors

ECONOMIC OVERVIEW

While economies around the world contracted sharply in early 2020 as a result of the COVID-19 pandemic, economic activity showed positive signs in the second half of the year, as nations emerged from the strictest lockdowns in Q2'20 and consumers and corporates benefitted from various support measures by governments and central banks. Global oil prices have also recovered during H2'20 and loosening restrictions supported a pickup in economic activity towards the end of the year, though substantial headwinds remain in 2021 as the world awaits full-scale vaccine rollout.

ECONOMIC ACTIVITY

Overall, global economic activity witnessed the steepest decline in a century, with advanced, emerging and developing economies all witnessing sharp contractions. Governments and central banks around the world introduced aggressive support measures for individuals, corporates and selected sectors to minimise the economic impact of the COVID-19 pandemic.

In the UAE, the externally facing nature of the economy made it highly vulnerable to the pandemic — oil and non-oil. We estimate real non-oil GDP contracting by 5.7% in 2020, with headline GDP falling by 6.5%, before recovering to 0.8% growth in 2021.

In 2020, the oil price remained well below the 2019 average, which is reflected in a number of our economic estimates, such as nominal GDP, government revenue and export earnings. Positively, oil prices have strengthened sharply in early 2021 and we have raised our oil price forecast for 2021 and now expect Brent crude to average USD 65.5 p/b.

Key non-oil sectors, such as trade, logistics, aviation and hospitality, were hit hard and continue to see a marked impact from weaker global demand and limited international travel. However, trade and logistics activity picked up post-lockdown and some positive signs in tourism-related areas were evident towards the end of the year.

Investment activity and project awards were also disrupted by the pandemic. Projects are being completed at a faster pace than new projects are being awarded, particularly in relation to ADNOC's medium-term investment programme.

In addition, the hosting of Expo 2020 (shifted to October 2021–March 2022) should be positive for the UAE's economic recovery, with the tourism, transportation, hospitality and retail sectors all set to benefit from the global recovery from the pandemic and the staging of this mega event.

GOVERNMENT SUPPORT AND REFORMS

The UAE Government and Central Bank introduced the Targeted Economic Support Scheme (TESS) in March to support the economy during the COVID-19 pandemic. The scheme's AED 50 billion Zero Cost Facility was extended by six months to 30 June 2021. Banks participating in TESS are able to provide new loans and facilities to customers negatively affected by the pandemic, alongside loan payment deferrals (principal and/or interest). We see this extension as highly positive from an economic perspective, as a number of economic areas will likely remain impacted by the COVID-19 crisis in H1'21 until a vaccine is widely distributed globally.

The monetary support measures introduced by the UAE Government and Central Bank aimed to ensure ample liquidity and funds available for banks to continue to lend to the real economy. This had a positive impact on credit growth following the introduction of support measures, driven primarily by GREs, indicating that the counter-cyclical monetary measures entered the economy. As the COVID-19 lockdown eased, economic activity picked up and consumer confidence increased. There was also positive monthly growth in personal loans towards the end of the year, indicating some improvement in household sentiment, while real estate data also point to a pick-up in mortgage demand, driven by the lower property prices and interest rates.

In the US, the Fed reduced the Fed Funds Target Rate (FFTR) by 150 bps, while the Bank of England dropped their base rate by 65 bps, with indications that this low interest rate environment is likely to continue for the foreseeable future.

PMI data at year end indicated that export orders (including services) continued to contract, whilst corporates were lowering prices to support demand. Companies are focusing on maintaining liquidity and preserving cash flow in the near term, with lower revenues and the ongoing uncertain economic backdrop. Moreover, signs of job losses and pay cuts across affected sectors will be a headwind to the recovery, while deflation gained pace during the year with a sharp fall in fuel prices, given the pandemic and ongoing downward pressure on real estate prices.

LOOKING AHEAD

For the UAE, we forecast consolidated government spending to rise gradually in 2021, with a narrowing of the consolidated deficit and stronger revenue growth, including higher oil income. Key service sectors, including travel, leisure and hospitality, are expected to drive the recovery, though they will continue to be impacted by pandemic-related measures and look to remain below pre-pandemic levels in the coming year.

COVID-19 accelerated trends such as the shift towards digitisation, increased working from home, reduced business travel and the retreat of globalisation. While these trends will play out over the coming years, and may lose some momentum as a result of vaccine introduction or political developments, they have already ushered in widespread structural change in the behaviours of consumers and corporates worldwide.

A resurgence in global COVID-19 cases is a key risk during the upcoming year, which will continue to be defined by low interest rates with elevated uncertainty until the large-scale deployment of an effective vaccine, though we foresee a further pickup of overall activity and the potential for an uneven macroeconomic recovery.

BUSINESS MODEL

Our Strengths

LEADERSHIP

An experienced Board of Directors with strong support from the main shareholder, supported by a highly skilled senior leadership team.

TALENT

Dedicated and talented employees from over 80 nations, united by shared values and an agile culture, including 1,482 UAE Nationals.

BRAND

Third largest bank in the UAE by assets with a growing base of over 1 million customers and an unrivalled reputation.

EXPERTISE

An in-depth knowledge of the UAE market and economy to help customers realise their ambitions.

RESILIENCE

With more than AED 411 billion in total assets, robust liquidity and strong credit ratings.

INNOVATION

Digital strength and technological capability for an outstanding customer experience.

DIVERSE OWNERSHIP STRUCTURE

60.2% owned by the Abu Dhabi government through Abu Dhabi Investment Council (ADIC)¹, with growing share of foreign institutional shareholders from over 80 countries.

¹ ADIC is an investment arm of the Government and is responsible for investing the Government's financial resources. In 2018, ADIC was restructured to become part of Mubadala Investment Company (MIC). MIC is the development and investment company leading the Government's economic diversification strategy.

How we Create Value

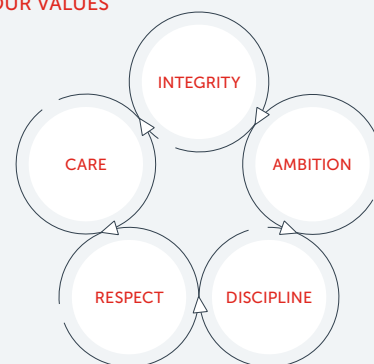
OUR VISION

**TO BE THE NUMBER ONE
BANK OF CHOICE IN THE UAE.**

OUR MISSION

To build partnerships with customers that last a lifetime, by: Treating every customer as an individual; offering innovative products and unparalleled service; never forgetting that our customer has a choice.

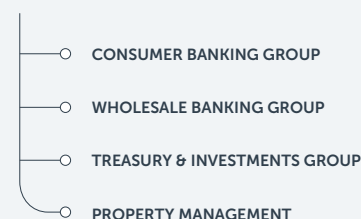
OUR VALUES



Our value creation is underpinned by corporate governance, strategic risk commitment to our nation and

BUSINESS SEGMENTS

We provide trusted banking products and services for a diverse customer base through our four business segments:



OUR SUBSIDIARIES



by a strong foundation of robust management and an enduring the communities we serve.

What we Deliver

EMPLOYEES

Fulfilling careers, competitive benefits and rewards with professional development.

CUSTOMERS

Protecting and growing the wealth of more than a million customers, from individuals, SMEs and large corporates through to GREs and the government.

COMMUNITY

Playing a role in the socioeconomic development of the country. Guided by the vision of the UAE leadership, the Bank is fully committed to initiatives that create a diversified, sustainable economy.

INVESTORS

Delivering robust returns and long-term sustainable value to shareholders.

REGULATORS / GOVERNMENT

Engaging with relevant authorities to support a responsible regulatory framework.

PARTNERS

Partnering with numerous suppliers, providing them with new business opportunities and timely payments.

GROUP STRATEGY

Our Corporate Strategy provides focus and direction for our Group, enabling every individual across our Bank and subsidiaries to pull together as one and deliver sustainable growth and profitability.

In 2020, we successfully delivered on our strategy and its five strategic pillars, which were supported by our key enablers and brought to life each day through our shared values, to create a more resilient organisation that continuously strives for excellence, innovation and outstanding customer service.

With the introduction of our new five-year strategy, we will build on this strong foundation to accelerate growth, drive digital transformation and unlock increasing value for our shareholders.

STRATEGIC PILLARS

HOW WE ACHIEVE IT

WHAT WE DID IN 2020



GENERATE SUSTAINABLE PROFIT GROWTH THROUGH A UAE-CENTRIC APPROACH

We are committed to the UAE and its economy. It provides a dynamic, growing market with great ambition and significant long-term business potential as it continues to diversify. Dedicating ourselves to this one market enables us to deeply understand our customers and focus on their developing needs.

- Growing customer base with more than 1 million customers
- Reduced branch network to pre-merger footprint of 54 branches in prime locations in the UAE
- 93% of gross loans were in the UAE
- Delivered a return on average tangible equity of 8.3%



SUSTAINABILITY THROUGH LIABILITY GROWTH AND FUNDING DIVERSIFICATION

We have a diversified liability base with increasing customer deposits. Loan growth is funded through increases in customer deposits, which resulted in a significant improvement in our loan to deposit ratio since the launch of our strategy.

- Customer deposits of AED 251 billion comprised 71% of total liabilities
- CASA deposits of AED 127.5 billion, an increase of 25% vs. 2019
- Wholesale funding comprised 20% of total liabilities, providing further diversification



SUPERIOR CUSTOMER EXPERIENCE THROUGH SERVICE EXCELLENCE

By providing exceptional service and ensuring a consistent cross-platform experience, we anticipate the changing needs of our customers and set ourselves apart from our competitors.

- Improved NPS scores
- 30% of every employee's performance objectives are measured against customer service



EFFECTIVE RISK-TAKING AND MANAGEMENT IN LINE WITH PRE-DEFINED RISK APPETITE

Our disciplined approach to risk management is fundamental to protecting the Bank's long-term financial strength and has given us the flexibility to adjust to the challenges of the operating environment.

- Cost of risk at 1.45%
- Enhanced bank-wide controls and security
- Introduced a new framework for setting credit limits following an all-inclusive review of the Bank's loan portfolio and activities across key economic sectors



EXPLOITATION OF DIGITAL FOR GROWTH AND EFFICIENCY — LEVERAGING DATA ANALYTICS

Simplify the client experience and improve ecosystems for all our customers. Using technology in the right way helps us to serve our customers better, enabling faster, more secure and efficient banking.

- Significant increase in the use of digital channels by customers
- Launched 62 digital releases, double the total in 2019

KEY ENABLERS

HOW WE ACHIEVE IT

ATTRACTING AND REWARDING THE BEST TALENT WITH INCENTIVES ALIGNED TO STRATEGIC OBJECTIVES

Our long-term success depends on our people. Channelling their ambition is critical to the successful realisation of our strategic aspirations.

AGILE ORGANISATION AND INNOVATIVE CULTURE

We continually enhance our ways of working. We are improving our culture by being nimbler, offering greater empowerment at all levels and reducing the number of siloes across the business.

OUR KEY PERFORMANCE INDICATORS

KPI/STRATEGIC AIM	HOW WE MEASURE IT	2020
MOST VALUABLE BANK IN THE UAE	TOTAL SHAREHOLDER RETURN (TSR) Calculated as the growth in share price, plus dividends paid to shareholders during the year. TSR is recognised as one of the best measures of shareholder returns.	370% 10-YEAR TSR
MOST PROFITABLE	RETURN ON AVERAGE TANGIBLE EQUITY (ROATE) Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity, excluding intangible assets and Tier 1 capital notes <i>To increase ROATE, we focus on growing our business where risk adjusted returns are maximised and capital is efficiently deployed.</i>	8.3%
MOST EFFICIENT	COST TO INCOME RATIO Calculated by dividing operating expenses by operating income. <i>We are re-engineering our operational processes and increasing automation in order to do more with less. We are becoming more efficient, which provides greater scope to invest in our businesses.</i>	35.1%¹
MOST RESILIENT	BASIC EARNINGS PER SHARE (EPS) Calculated as profit attributed to equity shareholders, divided by the weighted average of the shares in issue during the year.	AED 0.51
BEST CUSTOMER SERVICE	NET PROMOTER SCORE (NPS)² NPS is based on the likelihood that customers will recommend ADCB to family or a friend. NPS is calculated as the percentage of customers who are promoters, rating ADCB a 9 or 10 on a 0 to 10-point scale, minus the percentage who are detractors, rating it 6 or lower.	NPS OF 67%, AN INCREASE OF 27 NPS POINTS OVER 2014

¹ Excludes integration related costs.

² In line with our digital transformation strategy and the impact of COVID-19, NPS methodology was changed to digital channels in H2'20, therefore reported NPS scores are for Q1'20 only.



RISK MANAGEMENT

Risk management lies at the core of ADCB's position as a trusted and systemically important bank in the UAE. Mitigation and management of a wide range of risks is the responsibility of every member of our organisation and underpins the Bank's strategic direction, business performance and decision-making.

Our proactive approach to risk management is driven by our core values — Integrity, Care, Ambition, Respect and Discipline — which play an integral role in aligning all concerned parties; ensuring financial stability and liquidity; and enforcing the discipline needed to protect the Bank, its reputation and its customers.

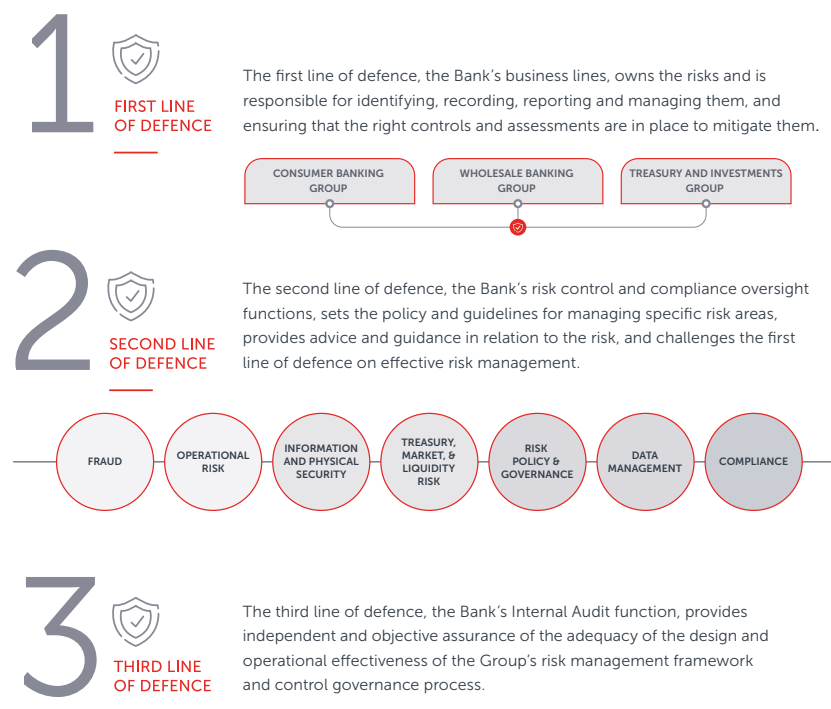


WINNER OF PRESTIGIOUS BUSINESS CONTINUITY AWARD

In recognition of our exceptional efforts during 2020 and in response to the COVID-19 pandemic, ADCB was awarded the 'BCI Middle East 2020 Continuity and Resilience Team Award' for 2020, the most prestigious global award for business continuity from the leading global body in the field, Business Continuity Institute.

OUR RISK MANAGEMENT FRAMEWORK

To create a robust control environment to effectively manage risks, the Group uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. It forms the basis for the Group's approach to risk management by clarifying responsibilities, encouraging collaboration, and enabling efficient coordination of risk and control activities.



RISK GOVERNANCE ROLES & RESPONSIBILITIES

BOARD OF DIRECTORS	ESTABLISH & ENSURE STRONG CONTROL ENVIRONMENT
MANAGEMENT EXECUTIVE COMMITTEE	OVERSIGHT & IMPLEMENTATION
RISK MANAGEMENT FUNCTION	GOVERNANCE & COMPLIANCE
BUSINESS LINE MANAGEMENT	OWNERSHIP
INTERNAL AUDIT	ASSURANCE

ROBUST RISK MANAGEMENT IN 2020

In line with our focus on continuous improvement in risk management across the Bank, this year began with a review of our risk management governance structure and framework to ensure alignment with applicable regulations and international best practices. However, by the end of Q1, our efforts were dedicated to responding and adapting to the new environment brought on by the COVID-19 pandemic.

Our focus was on keeping the Bank operational, the welfare of our staff, and ensuring the appropriate control environment. To mitigate the increased operational risk resulting from COVID-19 outbreak, a cross-functional team led by Group Operational Risk was established and undertook a wide range of assessments and scenarios to understand the implications and range of potential effects that COVID-19 could have on the UAE economy and, in turn, the Bank. It also carried out a review of over 190 COVID-induced changes in business processes to ensure they remained within the Bank's risk appetite. A separate series of exercises was undertaken to assess the impact on the Credit Portfolio.

In line with the UAE Central Bank's Targeted Economic Support Scheme (TESS), ADCB acted swiftly to deploy the funds to corporate and retail customers projected to be most impacted and help protect them from the economic ramifications of the pandemic. By the end of the year, ADCB had deployed its full TESS entitlement and due to the Bank's approach to active engagement, a significant number of customers who had benefitted from deferrals were transitioning out of the scheme and making repayments.

OPERATIONAL RISK MANAGEMENT

In 2020, we continued to enhance our approach to operational risk and factored in new/additional risks that may arise due to remote working conditions. Our business continuity management policy and tools were enacted with over 50 meetings of the Crisis Management Team held to consider the evolving environment. A dedicated team was also formed to assess and put in place new mitigating controls to support remote working conditions.



The safety of our employees and the ability to withstand a crisis are vital to the Bank. To ensure this, we enhanced our emergency response procedures and business continuity plans to enable us to continue to achieve our business objectives in the face of unexpected disruptive events, such as COVID-19. These plans were well tested in 2020 and, as a result, we are now well equipped and better placed from an ongoing resiliency perspective to cope with future disruptive events. The Bank also holds an ISO22301:2012 certification, which illustrates the high standards we employ.

During the year, we also undertook a review of our activities across key economic sectors and established a new credit limit setting framework, with the support of specialist consultants, which was approved by the Board of Directors for implementation by management.

As well as regular training to ensure wide-spread risk awareness, we maintained our process for the escalation of operational risk events across the entire network.

DATA MANAGEMENT

In 2020, we built our data management team to provide a foundation to support ADCB's growing focus in this increasingly critical discipline, which encompasses the following elements:



DATA PRIVACY

To protect our customers' and employees' data and to build trust with our customers



DATA GOVERNANCE & QUALITY

To improve governance and quality of our data



ENTERPRISE DATA PLATFORM

To improve consistency and reliability for enterprise reporting and analytics



MASTERING DATA MANAGEMENT (PLANNING)

To centrally manage all of the core data

INFORMATION SECURITY

The Bank's focus on steady enhancement of our information security risk framework and systems provided a strong platform to avoid and resist the increased level of cyber-attacks during the COVID-19 period. We continued to invest in people and systems to improve detection, protection and response times, as well as enhancing our threat hunting capabilities and reporting processes.

FRAUD

Similar to the increased level of cyber-attacks, 2020 also saw an increased level of activity targeting customers and staff in relation to fraud, with sophistication increasing and aligning to COVID-19 themes. To combat these activities and minimise their impact, we issued a number of campaigns and messages to raise awareness amongst our employees and our customers on these attempted frauds, common tactics used and how they can protect themselves.

COMPLIANCE

ADCB worked with the UAE Banker's Federation and UAE Central Bank in response to the results of the Financial Action Task Force's (FATF) mutual evaluation process carried out in the UAE. This has seen increased regulations and guidance on anti-money laundering (AML) and combating the financing of terrorism (CFT). The Bank also participated in an industry wide sanctions screening test and we are working through the results of these scenarios to fine tune our typologies and transactional monitoring systems.

We also launched a dedicated project to work with our customers and position ADCB to meet the transition away from the LIBOR reference rate¹ and make changes to our systems to adapt to this new regime. We created a page on our website to keep customers informed on what this transition means, highlighting expected changes in loan documentation, and creating awareness of the timelines and new terminology.

¹ The London Interbank Offer Rates for various applicable currencies (collectively, LIBOR) are expected to cease after the end of 2021.

Regulators have been working with market participants and industry bodies to facilitate a smooth transition from LIBOR to new Risk-Free Rates (RFRs). Given the high number of LIBOR linked processes and transactions and the uncertainty and complexity surrounding the replacement RFRs, which are backward looking overnight rates (as opposed to forward looking term rates), transition is likely to be one of the more complex transformation programmes undertaken by the Bank in recent times.

UPDATING OUR RISK PROFILE & APPETITE

To ensure full alignment with macroeconomic scenarios, shareholder objectives, regulatory changes and best-practices, each year the Bank evaluates our risk appetite through a process of systematic self-assurance, Bank-wide surveys and a comprehensive stress test exercise. Alongside the Basel Accord's three lines of defence model, this provides an overview of our current status.

The Bank's framework is built upon four principles — business models, organisational capabilities and skills, financial strength and monitoring. It guides other metrics set by management at line, business and portfolio levels, which must be consistent with the overall Group risk appetite.

Our Risk Appetite Statement encompasses all of ADCB's capabilities and uses realistically achievable parameters. Our risk appetite is established by identifying the amount and type of risks considered acceptable to deliver on our business strategy, while also ensuring that ADCB can maintain its activity in the event of unexpected circumstances. They set our tolerance for:

- Capital adequacy (normal and stress scenarios) and earnings volatility, including return on risk and shareholder returns
- Compliance and regulatory risks
- Employee conduct
- Credit concentrations in geographies, large groups, individual entities, economic sectors, revenues, the shape of the portfolio, enterprise-wide cost of risk, delinquencies and provision levels
- Default risk and credit losses
- Financial crime and resolution, anti-money laundering and political exposure
- Information and technology risks
- Market and price valuations
- Liquidity and funding gaps, liability concentrations and liquidity under stress conditions

- Market risks in the trading, investment and banking books, covering movements in interest rates, foreign exchange, equity exposures, commodities and market volatility
- Operational and reputational risks, including human resources
- External and internal ratings, which affect pricing and investor appetite

Stress testing is also an integral part of ADCB's risk appetite, and the Bank sets in absolute terms the minimum capital ratio in case of pre-defined stress scenarios.

ADCB's risk profile and appetite are approved by the Board and the Risk and Executive Committee, and then cascaded down to every department and individual throughout the organisation.

STRENGTHENING OUR RISK CULTURE

A strong risk culture and good communication among the three lines of defence are important characteristics of good operational risk governance. ADCB's operational risk culture is driven by its core values.

A 'No surprise' and 'No blame' culture cascades from Senior Management, creating awareness throughout ADCB of the need to manage operational risk and incentives to improve the management of operational risk throughout the Bank.

During the COVID-19 period, staff members undertook various training initiatives and webinars to improve their knowledge and understanding of a range of risk-related topics. This is part of an ongoing commitment to developing and reinforcing a strong risk culture at ADCB, as a high level of awareness amongst employees helps to reduce risk across the organisation.

All staff are responsible for highlighting and managing potential hazards in the course of their work, with individual accountability fostered through a focus on our three lines of defence model. ADCB also has a number of online compulsory modules, such as the Code of Conduct, to ensure focus and awareness on various critical risk matters are maintained.

FOCUSING ON ETHICAL BANKING

Our Bank-wide commitment to customer excellence compels us to do everything possible to protect consumers and minimise any reasons for complaint. This year, we continued our efforts to provide customers with greater clarity about what we offer, including the descriptions of our various products and more transparency about our terms and conditions, fees and charges. We also believe that by promoting better education and developing greater awareness of money management, we help to reduce financial risk.

BASEL III COMPLIANCE

The Basel Accords focus on risk management in banks and link the business profile of banks to their risk profiles, and subsequently to regulatory capital. Hence, the Bank places a high emphasis on capital structure, capital planning and capital allocation as part of our strategic decision-making. For more about this, please see our separate Basel III – Pillar III Report.

RISK KPIs & PERFORMANCE

KPIs	2020
CAPITAL	
COMMON EQUITY TIER 1 (CET1) RATIO	13.91%
LIQUIDITY	
LIQUIDITY COVERAGE RATIO (LCR)	156.8%
CREDIT	
LOAN TO VALUE RATIO FOR MORTGAGE PORTFOLIO	82%
NON-PERFORMING LOAN (NPL) RATIO	6.04%
PROVISION COVERAGE RATIO	94.3% ¹
PROVISION COVERAGE RATIO WITH COLLATERAL	151%
COST OF RISK	1.45%

¹ Includes FV adjustments on loans and advances of AED 3.9 billion in Dec'20 (for stage 1 and stage 2 accounts only) for computing the coverage ratio.



In 2020, ADCB met all its regulatory requirements against a backdrop of challenging economic conditions caused by the COVID-19 pandemic and has maintained strong buffers with respect to liquidity and capital to cope with any potential future events.

EXTERNAL RISK SCENARIOS

The Bank identifies and actively monitors a range of external risks that have the potential to lead to a significant, unexpected adverse outcome for ADCB, or its ability to meet its strategic objectives. These external risks, along with potential impact and mitigation strategy, are summarised as follows.

EXTERNAL RISK	DEFINITION AND POTENTIAL IMPACT	MITIGATION STRATEGY
MACROECONOMIC CONDITIONS IN THE OPERATING MARKETS	COVID-19 has resulted in volatility in the price of oil, affecting the UAE economy and those of other GCC countries, as well as a decline in underlying demand for goods and services. Actual GDP growth rates turned negative in 2020 and are forecasted to remain low with limited credit growth.	The Bank refined its risk appetite to the industries with which it deals and will continue to adhere to the credit risk metrics already in place that address various portfolio dimensions. A number of assessments and scenarios were also undertaken to right size our provision levels and ensure our capital ratios remain strong.
GEOPOLITICAL RISK	This risk could stem from one of many sources unrelated to the Bank and its business. Geopolitical tension remains a persistent issue in the region. In the past 12 months, we perceive this risk within the Middle East has reduced, albeit trade tensions globally have increased (notably USA & China).	We regularly monitor geopolitical and economic situations around the world. As part of our Asset and Liability Committee (ALCO) deliberations, we factor in geopolitical risks as part of overall liquidity considerations. ADCB's Chief Economist assesses the economic impact of changing geopolitical risks and provides vital inputs to drive our strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and to mitigate these risks.
REGULATORY AND LEGAL RISKS TO OUR BUSINESS MODEL	New regulatory requirements may affect our business model and profitability. Should a regulatory change reduce our ability to meet any of our customers' needs or to achieve fair customer outcomes, we may experience increased costs and reputational damage. Moreover, the inability to satisfy our customers would cause the Bank to fall short of its strategic objectives, which could hurt earnings, liquidity, capital and shareholder confidence. The risk of failure due to external unanticipated regulatory and legal changes affects all our businesses. In the past 12 months, we perceive this risk has increased somewhat due to a number of new regulations being issued by the UAE Central Bank and the ongoing development of its enforcement department.	We strive to ensure that the Bank's views are considered when UAE regulatory policy is developed. ADCB chairs, or is a member of, several UAE Banks Federation forums. Internally, we analyse all new draft regulations or circulars to measure their impact as well as to ensure they can be implemented effectively. We also confirm that our capital and liquidity plans anticipate the potential effects of any changes. We continuously monitor and expand our capital allocation and liquidity management disciplines to incorporate future increased capital and liquidity requirements and to drive appropriate risk management and mitigating actions.
HEALTH OF STAFF & COMMUNITY	The global pandemic has highlighted the risks that public health issues present to our employees and customers, and the potential impact on our operations. The Bank has shown its ability to adapt rapidly to fast-changing conditions and to implement effective measures to ensure a safe work environment.	The Bank put in place remote working capability to ensure our staff and those in more vulnerable categories are able to continue to work remotely/from home. Sanitation requirements were introduced into our premises in terms of specialised cleaning/thermal scanners/maintaining social distance within the office environment via lower capacity on each floor/team operating on a rotational basis. A number of communications were also sent to staff during the year covering health tips and highlighting governmental requirements, and supporting work-life balance and mental health given isolation impacts.
CYBER THREATS	Threats from external parties related to cyber/phishing/fraud have increased in the past 12 months.	We have increased the level of communications to our customer base and staff to be wary of these attempts and provided examples of how these attempts are undertaken to build awareness of the risks. The Bank continues to invest in tools, systems, penetration testing and vendor support to ensure our perimeter and systems remain strong against these attacks.

OUR PRINCIPAL RISKS

Our Principal Risks are frequently reviewed and updated, particularly in a challenging and rapidly evolving environment. This year, we added seven new metrics and enhanced the measurements of a further 10 metrics across the 10 Principal Risks. The new metrics reflected more heightened attention to credit risk, business continuity management, data privacy and cyber security threats. They ensure the Bank's full enterprise risk profile is measured, monitored and aligned with our overall Group strategy.

OUR STRATEGIC PILLARS

1. GENERATE SUSTAINABLE PROFIT GROWTH THROUGH A UAE-CENTRIC APPROACH
2. SUSTAINABILITY THROUGH LIABILITY GROWTH AND FUNDING DIVERSIFICATION
3. SUPERIOR CUSTOMER EXPERIENCE THROUGH SERVICE EXCELLENCE
4. EFFECTIVE RISK-TAKING AND MANAGEMENT IN LINE WITH PRE-DEFINED RISK APPETITE
5. EXPLOITATION OF DIGITAL FOR GROWTH AND EFFICIENCY — LEVERAGING DATA ANALYTICS

Key: Directional change from 2019 in terms of risk dimension/concern



PRINCIPAL RISK	DEFINITION	APPROACH	OVERSIGHT
CAPITAL RISK STRATEGIC PILLAR IMPACTED: 1 / 4 	Potential for: (i) insufficient level or composition of capital to support normal activities or stressed conditions; and (ii) risk of loss arising from the Bank failing to maintain the level of capital required by prudential regulators and other key stakeholders to support operations and risk appetite.	We maintain a healthy and active approach to capital management, including the maintenance of buffers sufficient to support our strategic aims and maintenance of an investment-grade rating. ADCB is well-capitalised and regularly runs stress tests to ensure sufficient capital coverage at all times. We manage capital utilisation, and business growth within the risk-weighted asset (RWA) target ranges reflected in our business plans. Such plans also target stability of earnings. We grow our business by targeting recurring economic profit commensurate with risks being taken and returns expected.	ACCOUNTABLE EXECUTIVES: Group Chief Financial Officer, Group Chief Risk Officer ACCOUNTABLE COMMITTEES: PMC, BACC, BREC, Board
COMPLIANCE/REGULATORY RISK STRATEGIC PILLAR IMPACTED: 1 / 2 / 3 / 4 	Potential for impact and exposure to regulatory sanctions, or loss from a failure to comply with regulatory requirements, laws or industry standards.	We are committed to upholding compliance standards, laws, regulations and industry standards, as well as internal policies and sound corporate governance principles. Identified breaches are remedied as soon as practicable. The Bank has no appetite for deliberate or negligent non-compliance.	ACCOUNTABLE EXECUTIVES: Group Chief Compliance Officer, Group Chief Risk Officer ACCOUNTABLE COMMITTEES: MEC, BACC, Board
CONDUCT RISK STRATEGIC PILLAR IMPACTED: 1 / 3 / 4 	Potential for detriment to retail customers, corporate clients or market integrity from the inappropriate supply of financial services, or from a failure on our part to abide by the Bank's Code of Conduct Policy and/or applicable laws or regulations, including insider trading and anti-bribery risk.	We maintain the standards in our Code of Conduct and core values and ensure we always 'Do the Right Thing' in the way we conduct business. The Bank expects employees to conduct themselves with a high degree of integrity and to strive for excellence in the work they perform and the outcomes they achieve. The appetite for behaviours that do not meet these standards is very low. ADCB takes any breaches of its Code of Conduct very seriously. We have clearly defined policies on anti-bribery and corruption, anti-money laundering and insider trading. We are committed to creating a safe working environment for all of our staff, where they are protected from physical and psychological harm. We have zero tolerance for practices or behaviours that could be expected to lead to staff being harmed while at work. We are also committed to treating our customers fairly by operating with transparency and providing clear information on products and services, managing conflicts of interest related to these services, avoiding mis-selling and having a rigorous process to ensure the products and services we sell are suitable to customers.	ACCOUNTABLE EXECUTIVES: Management Executive Committee Members ACCOUNTABLE COMMITTEES: MEC, NCHRG, BACC, Board

Our Principal Risks (continued)

PRINCIPAL RISK	DEFINITION	APPROACH	OVERSIGHT
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CREDIT RISK

STRATEGIC
PILLAR
IMPACTED:
1 / 4



Potential for financial loss due to the failure of a customer to meet the agreed obligations to pay the Bank. It also includes concentration risk (increased exposure to large client groups, sectors or geographies) and decreases in credit quality.

We manage our credit exposures by having a sound analytical framework, focusing on analysis of cashflows and considering the legal framework in which the Bank and borrower operate. We apply a set of criteria and policies to lending that means we only deal with clients with good creditworthiness. This ensures facilities are appropriately secured, wherever feasible.

ADCB Group submitted a special ICAAP and stress test report post-merger to the UAE Central Bank. The results were above the regulatory thresholds.

We have a greater appetite for risk in industries we better understand and have the insights, capability and capacity to manage and monitor.

We remain a relationship-driven business rather than pursuing opportunistic transactions.

Wherever possible, collateral is taken to reduce unsecured lending.

ACCOUNTABLE EXECUTIVES:

Group Chief Credit Officer, Business Heads for Consumer & Wholesale Banking, Group Chief Risk Officer

ACCOUNTABLE COMMITTEES:

MRCC, BACC, BREC, Board

FINANCIAL CRIME RISK

STRATEGIC
PILLAR
IMPACTED:
1 / 2 / 3 / 4



Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating, but not limited to, international sanctions, anti-money laundering and anti-bribery and corruption.

We have no tolerance for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided.

The Bank has no appetite for any fraud or corruption perpetrated by its staff. Any and all allegations of suspected fraud or corruption are taken seriously, as set out in the Code of Conduct.

ACCOUNTABLE EXECUTIVES:

Chief Compliance Officer, Group Chief Risk Officer, Head of Fraud & Investigations

ACCOUNTABLE COMMITTEES:

MEC, BACC, Board

PRINCIPAL RISK	DEFINITION	APPROACH	OVERSIGHT
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INFORMATION SECURITY AND TECHNOLOGY RISK

STRATEGIC
PILLAR
IMPACTED:
1 / 2 / 3 / 4 / 5



Potential for loss from a breach of confidentiality, integrity or availability of the Bank's information systems and assets through cyber-attack, insider activity, error or control failure; this includes the risk of loss of confidential information plus the management and quality of data held within systems which may lead to financial losses.

We have a minimal appetite for risk concerning the availability of critical business systems.

Service availability requirements have been identified and agreed within each business area.

We have no appetite for damage to our assets from threats arising from malicious attacks. To address this risk, we have strong internal processes and robust technology controls.

Our appetite remains low for IT system-related incidents that are generated by improper project management practices, excluding the unknowns before any 'go live'.

ADCB provides a secure environment for its people and assets by ensuring its physical measures meet high standards.

We have no appetite for the failure of physical security measures. We are committed to ensuring that information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirements.

We have no appetite for the deliberate misuse of information. Nor do we have any appetite for compromise of processes or data integrity issues that may cause limited or erroneous data to adversely affect our ability to make correct business decisions or jeopardise the integrity of management and regulatory reporting, which may also lead to financial loss.

We mitigate these risks at all times, balancing the cost of maintaining a controlled environment against the impact and likelihood assessment of a risk occurring.

ACCOUNTABLE EXECUTIVES:

Head of Information and Physical Security Governance, Head of Data & Governance, Head of Technology Services, Group Chief Risk Officer

ACCOUNTABLE COMMITTEES:

MEC, BREC, Board

LIQUIDITY AND FUNDING RISK

STRATEGIC
PILLAR
IMPACTED:
1 / 2 / 4



Potential that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn.

Funding risk is the risk that ADCB will be unable to achieve its business plans due to its capital position, liquidity position or structural position.

We actively manage our liquidity and funding base to ensure that we always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

We do not have any appetite for the loss of our investment-grade rating and are mindful of managing liquidity and funding within the constraints of Basel III, regulator obligations and the desire to be the last bank standing.

ACCOUNTABLE EXECUTIVES:

Treasurer, Head of Market Risk, Group Chief Risk Officer

ACCOUNTABLE COMMITTEES:

ALCO, BREC, Board

Our Principal Risks (continued)

PRINCIPAL RISK	DEFINITION	APPROACH	OVERSIGHT
MARKET RISK STRATEGIC PILLAR IMPACTED: 1 / 2 / 4 	Potential that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not related to credit standing) will affect the Bank's income, assets/liabilities or the value of its holdings of financial instruments.	We control our trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Bank. Our appetite across six key categories is laid out within the market risk appetite framework covering: interest rate risk; foreign exchange risk; equity exposure risk; commodity risk; volatility risk; and liquidity risk. Specific limits are established based on trading book, investment book and banking book activities.	ACCOUNTABLE EXECUTIVES: Treasurer, Head of Market Risk, Group Chief Risk Officer ACCOUNTABLE COMMITTEES: ALCO, BREC, Board
OPERATIONAL RISK STRATEGIC PILLAR IMPACTED: 1 / 2 / 3 / 4 / 5 	Potential for loss resulting from inadequate or failed internal processes, people and systems, or the impact of external events. This includes fraud, technology, outsourcing and legal risk.	Operational risk is a fundamental element of the Bank's approach to risk and impacts its banking products, activities, processes and systems. Our framework ensures a consistent approach and supports business objectives, reinforces a proactive risk management culture, and continuously improves ADCB's control environment. We manage operational risk by ensuring accountability and ownership across the Bank. We employ tools to reduce the probability of the occurrence of operational risk events that could threaten the Bank's reputation, the quality of our services and products, or the efficiency of our processes. We monitor the stability of our systems, the effectiveness of business continuity planning and disaster recovery to ensure the level of service we offer our customers, and the expectations of regulators, are never compromised. We have adopted five levels of operational risk severity ratings — Minor, Low, Moderate, Major and Extreme — whereby Minor and Low risks lie within the Bank's risk appetite and Extreme constitutes a threat to the Bank's ability to continue its operations. The Bank mitigates these risks at all times, balancing the cost of maintaining a controlled environment against the impact and likelihood of a risk occurring.	ACCOUNTABLE EXECUTIVES: Business Heads, Head of Operational Risk, Head of Fraud & Investigations, Group Chief Risk Officer ACCOUNTABLE COMMITTEES: Operational Risk Working Group, MEC, BACC, BREC, Board
REPUTATIONAL RISK STRATEGIC PILLAR IMPACTED: 1 / 2 / 3 / 4 / 5 	Potential adverse effects that can arise if the Bank's reputation is damaged due to factors such as unethical practices, breach of law, regulation, customer dissatisfaction and complaints or adverse publicity.	We protect the Bank from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight. We have a very low appetite for material legal cases against the Bank and, where appropriate, will adequately make provisions for the same in a timely manner.	ACCOUNTABLE EXECUTIVES: Management Executive Committee Members ACCOUNTABLE COMMITTEES: BACC, Board



“The new metrics reflected more heightened attention to credit risk, business continuity management, data privacy and cyber security threats.”

GROUP CFO'S MESSAGE

ADCB has stepped up to the mark with a holistic response to the wide-ranging challenges of COVID-19, balancing the provision of vital support for our customers with measures to ensure the Bank's continued financial resilience. Having successfully navigated a difficult period, ADCB is setting course for the next phase of sustainable growth.



DEEPAK KHULLAR
Group Chief Financial Officer

ROBUST PERFORMANCE ROOTED IN EFFECTIVE RESPONSE TO COVID-19

The COVID-19 emergency presented many challenges to our communities in 2020. ADCB adapted rapidly to economic disruption while also providing support and continued service excellence to our customers.

In this context, I am pleased to report that the Bank's financial performance remained solid, with operating profit before impairment allowances holding steady at AED 7.945 billion for the full year. The Bank produced a net profit of AED 3.809 billion, with impairment charges higher than in the previous year, reflecting the economic conditions and the Bank's exposure to NMC, Finabl and associated companies.

ADCB's Board of Directors proposed a dividend of 27 fils per share, which is equivalent to 49% of full year net profit, in line with its continued commitment to providing sustainable returns to shareholders.

Faced with a difficult operating environment, marked by low credit growth and higher market risk, the Bank adopted, and effectively implemented, a series of decisive measures to promote financial resilience. We reinforced our long-standing strategy to increase low-cost CASA deposits, which combined with lower benchmark interest rates to contribute to a significant improvement in cost of funds in 2020. The Bank also decreased operating expenses significantly through aggressive realisation of merger-synergies, acceleration in digitisation and additional cost control measures. In addition, a proactive approach to resolving issues related to NMC Health Group has placed ADCB in a strong position to maximise recoveries.

UNWAVERING FOCUS ON ACHIEVING EFFICIENCIES

One of the major achievements of the Bank in 2020 was the realisation of significant efficiencies — through merger-related synergies and additional cost-management initiatives — while successfully maintaining and enhancing service levels.

ADCB Group made strong progress on merger synergies following the successful integration with Union National Bank and Al Hilal Bank, which was completed in April 2020, within just 11 months of legal close of the transaction. The Bank captured AED 917 million of synergies in 2020, surpassing its target of AED 750 million, and is on track to exceed the full target of AED 1 billion in 2021. Meanwhile, total integration expenses were AED 545 million, excluding capex, at the end of 2020, significantly below budget of AED 980 million.

In 2020, ADCB also stepped up a Group-wide efficiency drive, facilitated by acceleration of our digital transformation, to enhance customer service and streamline internal processes. The Bank has taken on board the experiences of 2020 to modify its operating model, rationalising the branch network to pre-merger levels and increasing the pace of new digital releases.

This is delivering tangible results, with operating expenses decreasing 14% to AED 4.526 billion in 2020. The Bank recorded a 190-basis-point improvement in the cost-to-income ratio in 2020 to 35.1%, excluding one-off integration costs.

INCREASE IN CASA DEPOSITS REFLECTING STRONG FRANCHISE

The Bank continued to pursue a strategy to rebalance and re-price the deposit base, with ADCB's strong domestic retail franchise, market-leading cash management and trade finance platforms playing a key role in its success.

In 2020, CASA deposits increased 25% to reach AED 127.5 billion as at 31 December 2020. This growth was granular, with retail CASA deposits up AED 15 billion year on year, reflecting a high level of customer loyalty.

Total customer deposits decreased 4% year on year to AED 251 billion as at 31 December 2020, as the Bank continued to replace expensive time deposits, while the average deposit balance was AED 252 billion during the year.

CASA deposits accounted for 51% of total customer deposits at the end of 2020, compared to 39% a year earlier, combined with lower benchmark rates to produce a 111-basis-point improvement in cost of funds to 1.34% for full-year 2020.

Interest expense consequently improved 48% to AED 4.282 billion, while net interest income was 6% lower year on year at AED 9.783 billion, on account of lower benchmark rates and lower volumes amid subdued macro-economic conditions. Net interest margin held firm at 2.77% in 2020, compared to 2.84% in 2019.

ENDURING BALANCE SHEET STRENGTH

ADCB's balance sheet has remained solid despite the challenges of the COVID-19 pandemic, and the Bank's strong standing was reflected in the affirmation of its high investment grade ratings by S&P Global and Fitch Ratings in December 2020.

Total assets increased by 1% during 2020, while net loans declined 4% to AED 239 billion reflecting de-risking of the retail portfolio, a large corporate repayment in the second quarter of the year and significant provisioning levels.

The Group's credit exposure remains well-diversified across a broad range of economic sectors, with a good balance between the Wholesale Banking Group and Consumer Banking Group. The UAE loan portfolio is tilted towards Abu Dhabi, which accounts for 58% of the total, while Dubai accounts for 26%.

To provide crucial support to our communities, ADCB has participated fully in the UAE Central Bank's Targeted Economic Support Scheme (TESS), as well as providing additional customer deferrals to alleviate the economic impact of COVID-19. The Bank provided cumulative total deferrals of AED 12.8 billion to support over 67,000 customers as at 31 December 2020. Our approach has been to actively engage with customers to help them to transition out of the scheme. We received repayments of nearly AED 5.4 billion during 2020, resulting in a reduction of all outstanding deferrals to AED 7.5 billion at year-end.

ADCB has taken a conservative approach to provisioning amid the downturn in the economic environment due to COVID-19, applying macro-economic overlays to ensure continued balance sheet resilience. Impairment charges for 2020 were AED 3.993 billion, including AED 1.513 billion charges related to NMC Health Group, Finabl and associated companies. Full year cost of risk was 1.45%. However, excluding impairment charges related to NMC and Finabl, the cost of risk was 1%.

ADCB's capital adequacy ratio (CAR) and CET1 ratios improved to 17.2% and 13.9% respectively at the end of 2020, from 16.3% and 12.9% at the end of 2019. The Bank's liquidity position was also enhanced, with liquidity coverage ratio (LCR) improved to 156.8% at the end of 2020 from 127.3% at the end of 2019. These ratios are comfortably above minimum regulatory levels set by the UAE Central Bank.

LEVERAGING ADCB'S STRENGTHS

ADCB successfully navigated a wide range of challenges in 2020 and has demonstrated resilience operationally and in its financial performance. The Bank has emerged as a leaner and stronger organisation and can now look forward with cautious optimism to an expected economic recovery in the UAE in 2021.

Towards the end of 2020, the country was already experiencing an increase in economic activity, underpinned by a vaccination programme that is setting the pace globally. The Bank has started to experience the positive impact of improving consumer confidence, with a sequential rise in fee income in the fourth quarter of 2020 partly driven by higher debit and credit card spending.

ADCB's strong franchise is reflected in many aspects of its performance over the last year — from the ability to continue to attract low-cost deposits, to higher levels of digital engagement by our customers. The Bank is now leveraging these strengths to press ahead with the implementation of a new strategy to accelerate digital transformation and capitalise on growth opportunities.

We will maintain our disciplined approach to cost management and expect to exceed our AED 1 billion run-rate synergy target in 2021, in addition to capturing additional efficiency gains. At the same time, we remain committed to maintaining a prudent approach to provisioning and risk management, especially in light of the continued global macro-economic environment.

DEEPAK KHULLAR
Group Chief Financial Officer



51%

CASA deposits as % of total customer deposits, up from 39% in 2019



156.8%

Liquidity coverage ratio (LCR) up from 127.3% in 2019



17.2%

Capital adequacy ratio (CAR), up from 16.3% in 2019

MANAGEMENT DISCUSSION & ANALYSIS

Key indicators (FY'20)

3.809

NET PROFIT
(AED bn)

8.3

RETURN ON AVERAGE
TANGIBLE EQUITY
(ROATE %)¹

0.86

RETURN ON
AVERAGE ASSETS
(ROAA %)¹

0.51

BASIC EARNINGS
PER SHARE
(EPS – AED)

Q4'20/FY'20 Financial Highlights²

INCOME STATEMENT HIGHLIGHTS (AED MN)	Full-year trend			Quarterly trend				
	FY'20	FY'19	YoY	Q4'20 change%				
Total net interest and Islamic financing income	9,783	10,452	(6)	2,362	2,285	2,711	3	(13)
Non-interest income	2,688	2,760	(3)	701	706	583	(1)	20
Operating income	12,471	13,212	(6)	3,063	2,991	3,293	2	(7)
Operating expenses ³	(4,526)	(5,235)	(14)	(1,073)	(1,102)	(1,285)	(3)	(16)
Integration expenses	(153)	(346)	(56)	74	(62)	(129)	(220)	(157)
Operating profit before impairment allowances	7,945	7,977	0	1,990	1,888	2,008	5	(1)
Impairment allowances	(3,993)	(2,655)	50	(938)	(504)	(909)	86	3
Net profit for the period	3,809	5,244	(27)	1,007	1,366	1,048	(26)	(4)

BALANCE SHEET HIGHLIGHTS (AED MN)	Change%				
	Dec '20	Sep '20	Dec '19	QoQ	YoY
Total assets	411,156	409,262	405,095	0	1
Net loans and advances to customers	238,976	242,890	247,833	(2)	(4)
Deposits from customers	251,395	243,579	262,094	3	(4)

RATIOS (%)	Change%				
	Dec '20	Sep '20	Dec '19	bps	bps
CAR (Capital adequacy ratio – Basel III)	17.22	16.69	16.30	53	92
CET1 (Common equity Tier 1) ratio	13.91	13.36	12.93	55	98
Loan to deposit ratio	95.1	99.7	94.6	(460)	50

Figures may not add up due to rounding differences

Note: In March 2020, the purchase price allocation was completed. As required under IFRS3, the fair value of loans and advances, investment securities and non-controlling interests as at the acquisition date were updated from the previous provisional amounts reported. Therefore, the comparative information has been restated to reflect these adjustments.

1 For ROATE/ROAA calculations, net profit attributable to equity shareholders is considered, i.e., net profit after deducting interest expense on Tier 1 capital notes.

2 The results for FY'20 are based on the pro forma financial statements for the combined entity, following the merger between ADCB and Union National Bank, and the subsequent acquisition of Al Hilal Bank on 1 May 2019.

3 Operating expenses include non-recurring expenses pertaining to integration-related costs.

Pro forma comparisons in this section are calculated for the quarter ended 31 December 2020 ('Q4'20') versus the quarters ended 30 September 2020 ('Q3'20') and 31 December 2019 ('Q4'19') unless otherwise specified.

STEADY OPERATING PROFIT, WITH LOWER COST OF FUNDS AND AN IMPROVED COST TO INCOME RATIO CUSHIONING THE IMPACT OF LOW INTEREST RATES AND SUBDUED ECONOMIC ACTIVITY DUE TO COVID-19

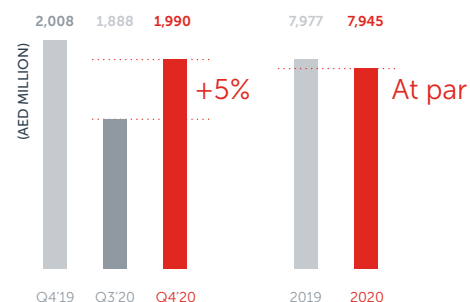
FY'20 operating profit before impairment allowances held steady at AED 7.945 billion, compared with AED 7.977 billion in FY'19. Lower operating expenses offset a decline in operating income amidst the challenging global macroeconomic environment. Q4'20 operating profit before impairment allowances of AED 1.990 billion was 5% higher quarter on quarter and down 1% from the previous year. The sequential rise was driven by an improved cost of funds, lower operating expenses and a rise in net fees and commission income.

Net interest income of AED 9.783 billion for FY'20 decreased 6% from FY'19 on account of lower benchmark rates and volumes amid subdued macro-economic conditions. Interest expense improved 48% to AED 4.282 billion in FY'20 on account of a significant improvement in the cost of funds, supported by increased low-cost deposits, reduced reserve requirements and declining benchmark rates. Q4'20 interest expense improved 19% sequentially and 63% over the prior year. Cost of funds decreased by 21 basis points sequentially and 135 basis points year on year to 0.85% in Q4'20.

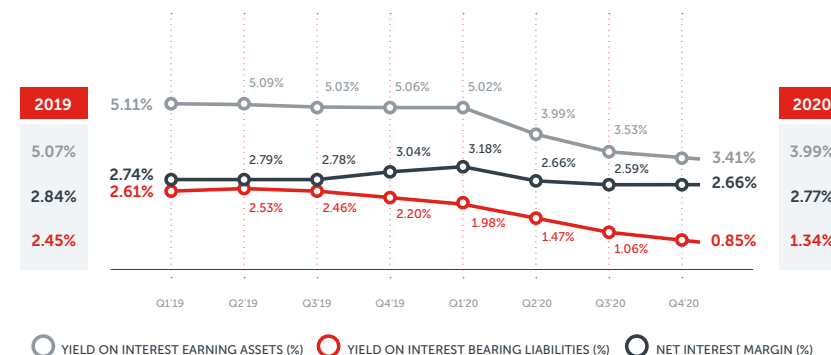
Net interest margin (NIM) increased sequentially to 2.66% in Q4'20 from 2.59% in Q3'20 on account of lower cost of funds and a rise in net interest income due to fair value adjustments. NIM was 2.77% in FY'20 compared to 2.84% in FY'19.

Non-interest income of AED 701 million in Q4'20 was down 1% from Q3'20 and 20% higher than in Q4'19. The year on year increase was driven by an increase in other operating income to AED 187 million in Q4'20 from AED 74 million in Q4'19, primarily due to a gain on the sale of investment securities. Net fees and commission income continued on an upward trend, rising 16% sequentially, as card-related and loan processing fees increased. Trading income for the quarter increased 1% quarter on quarter and was 25% higher than a year earlier.

Net profit of AED 3.809 billion in FY'20 compared with AED 5.244 billion in FY'19, impacted by impairment charges on NMC Health Group, Finabl and associated companies and macro-economic overlays reflecting the Bank's prudent approach to provisioning. Q4'20 net profit of AED 1.007 billion decreased 26% sequentially and 4% year on year, primarily on account of higher impairment charges due to a number of corporate accounts. Return on average tangible equity was 8.3% for FY'20 and 9.4% for Q4'20.



OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES



EVOLUTION OF YIELDS

SIGNIFICANT DECREASE IN OPERATING EXPENSES, DRIVEN BY STRONG PROGRESS IN CAPTURING MERGER SYNERGIES AND ADDITIONAL COST EFFICIENCY MEASURES

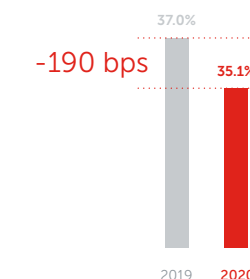
The Bank continued to focus on realising efficiencies across the organisation. Operating expenses were AED 4.526 billion in FY'20, down 14% from the previous year, and AED 1.073 billion in Q4'20, 3% lower quarter on quarter and a decrease of 16% year on year. Cost to income ratio, excluding one-off integration costs, improved 190 basis points year on year to 35.1% in FY'20.

Synergies captured in Q4'20 of AED 275 million, bringing the cumulative total in FY'20 to AED 917 million. Having surpassed its run-rate synergy target of AED 750 million in 2020, the Bank is firmly on track to exceed its AED 1 billion run-rate synergy target in 2021.

Integration costs incurred to date (excluding capex) amount to AED 545 million, well below the budgeted AED 980 million. The Bank recorded integration-related expenses of AED 153 million in FY'20 after reversing AED 74 million of charges in Q4'20.

During 2020, the Bank adjusted its operating model to account for changing customer demand and behaviour due to strong penetration of digital banking services. The branch network was reduced to pre-merger levels of 54 prime locations in the UAE, from 73 branches in Q2'20 and a peak of 127 on merger with UNB in May 2019.⁴

Greater efficiencies were driven by capture of merger synergies and strong progress on the cost management programme, including in procurement, process optimisation as well as reduction or elimination of discretionary spending.



COST TO INCOME RATIO EXCLUDING INTEGRATION-RELATED COSTS

⁴ Excluding Al Hilal Bank branches. Al Hilal Bank operates through a network of 13 branches.

MODEST INCREASE IN LOAN BOOK AND RISE IN LOW-COST CURRENT AND SAVINGS ACCOUNT (CASA) DEPOSITS

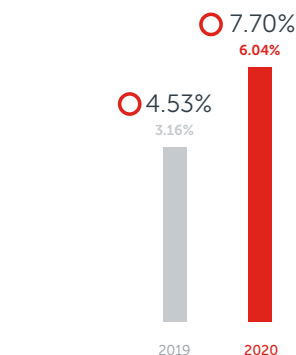
The Group's balance sheet remains strong, with total assets standing at AED 411 billion as at 31 December 2020.

Net loans were at AED 239 billion as at end-2020, 4% lower than a year earlier, on account of large corporate repayments at the end of Q2'20, de-risking of the retail loan book and significant provisions. The average loan balance for FY'20 was AED 245 billion.

Total customer deposits were at AED 251 billion as at 31 December 2020, down 4% year to date, as the Bank continued to increase low-cost CASA deposits and to exit high-cost time deposits. CASA balances reached AED 127 billion, an increase of 12 billion sequentially and AED 26 billion during 2020, and accounted for 51% of total customer deposits at the end of 2020, up from 39% a year earlier. The Bank witnessed granular growth in CASA, with retail CASA deposits reporting an increase of AED 15 billion in 2020.

ADCB has participated fully in the UAE Central Bank's TESS programme to support the UAE economy, offering a package that includes deferment of loan instalments, reduced fees and charges, interest rate reductions and waivers, and rescheduling of working capital facilities for SMEs and corporates. The Bank's active engagement with customers has resulted in the successful transition of customers out of the deferral scheme. As at 31 December 2020, ADCB had extended a cumulative total of AED 11.018 billion under the TESS programme to support over 67,000 retail and corporate customers. Repayments of AED 4.819 billion have resulted in outstanding deferrals reducing to AED 6.199 billion as at 31 December 2020.

5 Includes fair value adjustments on loans and advances of AED 3.2 billion in Dec'19 and AED 3.9 billion in Dec'20 (for stage 1 and stage 2 accounts only) for computing the coverage ratio.

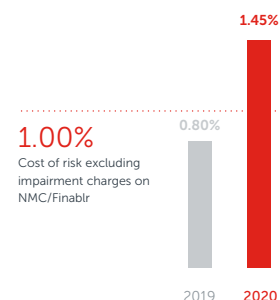


NPL RATIO

● NPL ratio including POCI, net.



PROVISION COVERAGE RATIO⁵



COST OF RISK

PRUDENT APPROACH TO RISK MANAGEMENT, WITH PROVISIONING REFLECTING CHALLENGING MACRO-ECONOMIC ENVIRONMENT AND CONSERVATIVE ASSESSMENT OF POTENTIAL RECOVERIES RELATED TO NMC HEALTH GROUP

Net impairment charges on loans and advances were AED 3.993 billion for FY'20 and AED 938 million in Q4'20, reflecting the challenging operating environment. In FY'20, the Bank recorded significant provisions and interest in suspense (AED 1.656 billion) on NMC Health Group, Finabl and associated companies. ADCB continues to work closely with the joint administrators and other creditors on a restructuring plan that seeks to preserve and build value at NMC Health Group.

The Bank is comfortable with provisioning levels on NMC Health Group given the positive developments in the company's recent financial performance and its ongoing restructuring process. NMC Health Group adopted a three-year business plan under the auspices of ADGM-regulated administration and its financial performance improved significantly in H2'20. ADCB, together with a syndicate of lenders, participated in a USD 325 million Administration Funding Facility (AFF) to ensure operational continuity of the NMC Health Group and to pave the way for restructuring. Participation in the AFF has placed the Bank in a strong position to maximise recoveries.

As part of the TESS programme to respond to COVID-19, the Central Bank of the UAE has allowed banks to tap into their Capital Conservation Buffer (CCB) up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.

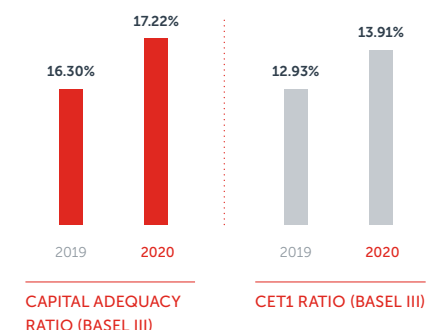
6 Excludes loans to banks of AED 11 billion from deposits and balances due from banks, net; but includes AED 228 million of certificate of deposits with central banks and AED 17 billion overnight placement with the Central Bank.

CONTINUED IMPROVEMENT IN CAPITAL RATIOS AND COMFORTABLE LIQUIDITY POSITION

Total shareholders' equity was at AED 57 billion as at 31 December 2020.

The Bank remains well capitalised with a Basel III capital adequacy ratio (CAR) of 17.22% and a common equity Tier 1 (CET1) ratio of 13.91% as at 31 December 2020, up from 16.30% and 12.93% respectively at the end of December 2019.

ADCB continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 156.8%. The Bank maintained a net lending position of AED 20 billion⁶ in the interbank markets in Q4'20 and had a liquidity ratio of 31.2% as at 31 December 2020.



BUSINESS REVIEW





CONSUMER BANKING GROUP (CBG)

Our Consumer Banking franchise continues to grow in strength, with total assets of AED 109 billion and liabilities of AED 95 billion, a network of 54 branches across the UAE and a full range of leading-edge digital banking platforms. We remain wholly committed to setting the benchmark for the country's retail banking market. As we forge ahead with our digital transformation, exemplified by our five uBank digital service centres, the Consumer Banking Group is continuously enhancing its customer service and efficiency.

Although the past year has seen significant disruption to markets, businesses and communities, the Consumer Banking Group has remained focused on its objectives and strategic goals, delivering strong performance throughout the crisis.

Our customer base grew by approximately 17% in 2020. Meanwhile, our current and savings account (CASA) deposits increased by AED 15 billion during the year. This growth was achieved through our segment-based relationship model, data-driven lifecycle management and an embedded culture of service excellence.

The success of the Consumer Banking Group is reflected in a sustained increase in customer satisfaction, with our NPS score¹ reaching 69% in 2020, 23 points above our 2014 baseline.

What we do

The Consumer Banking Group (CBG) provides retail and high-net-worth customers with a range of specialist products and services. By employing cutting edge digital services, we provide secure conventional and Shari'ah-compliant banking with exceptional efficiency.

¹ In line with our digital transformation strategy and the impact of COVID-19, NPS methodology was changed to digital channels in H2'20, therefore reported NPS scores are for Q1'20 only.

In responding to the COVID-19 pandemic, the Group sought to immediately provide a secure operational framework from which our employees could service customers, whilst guaranteeing uninterrupted service provision. Our highly evolved digital channels became a primary focus, with the ADCB mobile banking platform seeing a particularly strong rise in uptake among our customers.

A new remote working process was implemented for our relationship managers and sales teams, using email scanning and call recording to facilitate customer servicing and product fulfilment.

To ease the burden on our customers, and in harmony with the approach of the UAE leadership and the UAE Central Bank's Targeted Economic Support Scheme, ADCB offered loan deferments and waivers on interest charges for customers directly impacted by COVID-19, a 50% reduction in late payment charges on credit cards; a 5% increase in LTV ratio for first-time homebuyers; and interest-free instalment plans for school fee payments and service charge waivers.

We also provided full refunds of foreign currency processing fees for travel cancellations and charges for cash withdrawals with debit cards used at any ATM in the UAE.

Given the difficult prevailing economic circumstances, the Bank did not issue negative credit bureau reporting for clients who previously had a clean credit history. Meanwhile, we ensured that customers benefitting from deferrals maintained their credit profile at previous levels.

SUCCESSFUL INTEGRATION

ADCB's integration with Union National Bank (UNB) and Al Hilal Bank has resulted in significant cost efficiencies through productivity enhancements and economies of scale.

The complex integration was completed seamlessly in April 2020 despite most of our employees working from home due to COVID-19 safety measures. This final phase saw the transfer of former UNB customers to the ADCB banking platform, having full access to our rich value proposition and expanded digital capabilities.

As adoption of digital channels accelerated in 2020, the Bank reduced its branch network during the third quarter to pre-merger levels of 54 prime locations in the UAE, down from 73 branches in the second quarter and a peak of 127 following the merger with UNB in May 2019.

Greater efficiencies and a rigorous cost management programme have produced a significant reduction in direct costs, with total expenses borne by the Consumer Banking Group down to Q4 2018 run-rate levels.

We continue to adjust our operating model to account for changing customer demand and behaviour due to strong penetration of digital banking services.



AED 15 bn

Increase in Retail CASA deposits during the year

DIGITAL TRANSFORMATION

Our digital vision is for a service that supports our customers' everyday lives by offering simplicity, convenience and control of their banking.

ADCB's Virtual Branch concept, launched in May to support our customers during the pandemic, provided access to a range of banking services without the need for human interaction. This was designed primarily to serve Excellency and Privilege clients and offers service request facilities for fixed deposit redemption, standing order instruction management, fund transfer requests, overdraft-related requests and partial loan settlement.

This innovation has reduced the turn-around-time (TAT) on service requests from 48 hours to 12 hours and has proved to be a convenient banking solution for our customers. The concept proved highly popular, with 91% of clients and 96% of staff surveyed recommending the virtual model.

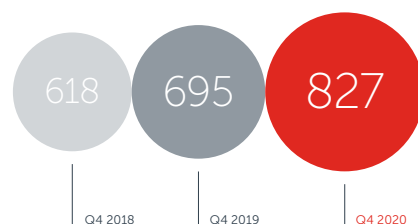
Our ongoing digital transformation has also seen increased mobile banking penetration among our retail customers in 2020. Digital banking financial transactions rose by 28% year on year in 2020 to reach 15 million. Approximately 93% of all our transactions are now electronic, while all fund transfers and utility bill payments are also digital.

Our Hayyak onboarding app brought in over 117,000 new customers during the year. The number of customers subscribed to ADCB's digital banking channels rose by 19% during 2020 to 827,000, representing 74% of total Consumer Banking customers.

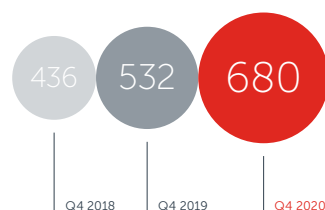
The facilities offered by the Hayyak and mobile internet banking apps — for new-to-bank and existing customers, respectively — have expanded in 2020 and now include a paperless, instant personal loan application service, whereby funds are credited instantly.

TOTAL DIGITAL BANKING SUBSCRIBERS

Internet Banking (IB) or Mobile Banking (MIB)



MOBILE BANKING SUBSCRIBERS



DIGITAL BANKING SUBSCRIBERS¹ ('000)

1 Subscribers: Registered user having at least one active product relationship.

Meanwhile, InstaPay, launched in November 2020, provides customers with instantaneous transfers to UAE accounts of up to AED 10,000 each month without the need to register a beneficiary. When using this service, funds are credited to the beneficiary account within minutes. Within 10 days of launching InstaPay, 2,500 transfers had been processed, totalling AED 3 million, immediately affirming its popularity.

ADCB's eco-friendly, paperless, uBank digital banking centres, located in malls, offer a range of on-demand services for day-to-day banking, such as instant account opening, credit card issuance and credit or debit card replacement, all of which are available 24 hours a day, 7 days a week, eliminating the need to bank within usual working hours.

We are also now among only a small number of UAE banks offering the entire range of globally recognised mobile wallets. In addition to Apple Pay and Samsung Pay, we added Google Pay, and three 'wearable' wallets — Fitbit Pay, Garmin Pay and Swatch Pay to our lineup in 2020. Mobile wallet performance in 2020 was strong, with over 176,000 active digital cards and digital wallet transactions increased by 171%.

Our digital initiatives received industry recognition during the year. The ADCB TouchPoints rewards programme, which achieved an online redemption rate of 98% in 2020, received the Silver award in the Digital Transformation category of the Gulf Customer Experience Awards. Also, our Hayyak onboarding app was named 'Best Digital Transformation Implementation' by Asian Banker.

Key Digital Highlights

DIGITAL BANKING (IB/MIB)

74%
Of customers registered

MOBILE BANKING

677K
Customers used new app since launch
95K average daily logins

HAYYAK APP

+117,000
Onboarded new customers in 2020
compared to 53,000 in 2019

UBANK

5
Digital banking centres in Abu Dhabi
and Dubai

APP STORE RATINGS¹

#1
In UAE across onboarding and mobile
banking apps

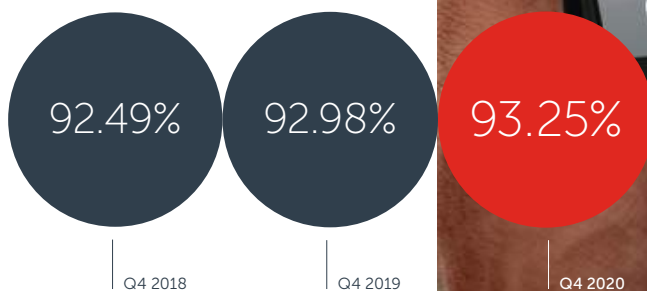
1 Apple Store and Google Play Store ratings for
ADCB Hayyak and ADCB mobile banking

MERCHANT SERVICES

Our merchant services supported approximately 5,800 customers in 2020 by providing secure and flexible end-to-end payment solutions to facilitate businesses across the UAE. Today we enjoy a market share of 6%, despite having been established only four years ago. In 2020, 60 million transactions were completed using our 18,750 terminals across the emirates.

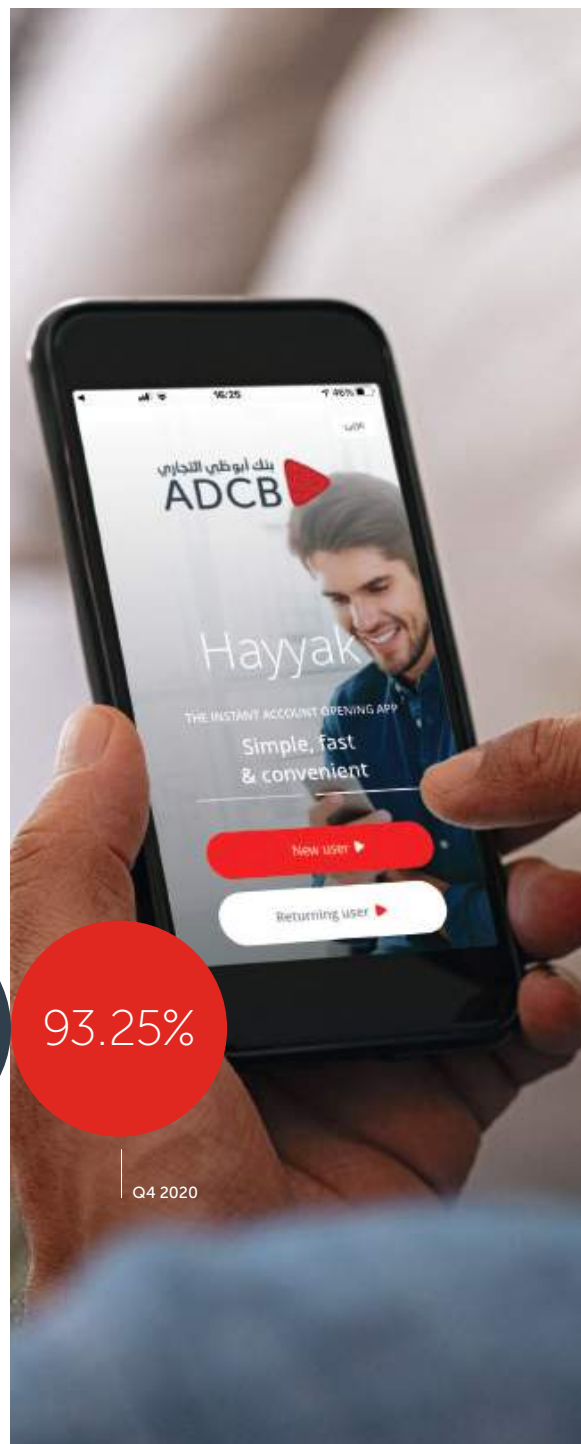
The past year has seen the launch of our new virtual point-of-sale (POS) app in collaboration with Visa — ADCB Pace Pay — which has so far onboarded around 250 customers. The first virtual (POS) app in the UAE, ADCB Pace Pay is designed to significantly simplify payment processing for micro-businesses and SMEs, particularly in the face of the disruption caused by the pandemic. The service offers comparatively lower service fees, an in-app interactive dashboard of all transactions and instant availability of funds in the merchant's wallet with an immediate cash-out facility to merchants' bank accounts.

For the second year running, we were recognised by the Visa Global Service Quality Awards, this time being named the 'Highest Authorisation Approval Rate — Cross Border Consumer Point of Sale (POS) (Issuer)' for the MENA region.



SELF-SERVICE CUSTOMER TRANSACTIONS¹ (FINANCIAL & NON-FINANCIAL)

¹ Self-service = Electronic channels including ATMs, excluding POS.



ISLAMIC BANKING

As the fourth-largest Islamic Banking franchise in the UAE following our acquisition of Al Hilal Bank, we offer an expansive range of Shari'ah-compliant products and services.

Islamic assets totalled AED 43 billion — including the portfolio of Al Wifaq Finance, recently acquired as part of our merger with UNB — whilst liabilities totalled AED 39 billion.

To enhance our Islamic Banking customer experience and improve internal processes, we introduced digital acceptance of Murabaha contracts. Also in 2020, personal finance was made available via mobile banking for existing customers and through the Hayyak app for new customers.

Our Islamic Banking team benefits from an extensive training and development programme that provides our people with unrivalled knowledge and skills to deliver world-class customer service. We have developed a comprehensive Certified Islamic Banking Executive (CIBE) programme to significantly enhance staff knowledge and increase their level of confidence during customer interactions. Within two months of its launch, over 500 staff completed the e-learning certification, collectively committing 22,000 learning hours to the programme.

ADCB PRIVATE AND WEALTH MANAGEMENT

ADCB Private continues to achieve steady growth. Our experienced wealth management team offers exceptional levels of personalised support for ADCB Private customers, based on their knowledge and perceptive insights on local and international marketplaces.

The number of high-net-worth individuals and families who bank with us increased by 7% in 2020, bringing total managed assets to AED 13 billion. Our clientele continued to benefit from our face-to-face private banking centre in Abu Dhabi Global Market (ADGM), Abu Dhabi's International Financial Centre.

We also made a significant change to the Wealth Management delivery model for our mass affluent segment of customers. The new model helps clients to make investment decisions based on their individual investment time horizon, investment objectives and risk profiles.

To achieve this, the Bank tailored its wealth management product suite and implemented suitability-based client journeys. This increased the focus on a portfolio-based approach to investment decision-making, rather than the prevalent approach of trading securities in isolation.

As we enter 2021, we will continue to enhance our digital platforms and services to support our customers' requirements, in line with the Bank's digital vision.

CARDS BUSINESS

ADCB was ranked highest in the UAE for credit card acquisition in 2020, with a 14% share of new card issuance. Our market share in terms of credit card spend also improved by 70 basis points to reach 15%, whilst our share in total cardholder spend reached an all-time high of 14%.

Meanwhile, our debit card spend volume also reached an all-time high, with market share reaching 12%, representing an increase of 180 basis points year on year — the highest increase since 2012.

LOOKING AHEAD

As we enter 2021, the Consumer Banking Group will continue to invest in, and deliver, digital transformation initiatives that serve our customers faster, more efficiently and securely.

In particular, we will focus on engaging both new and existing customers via our mobile and online platforms, while maintaining an emphasis on ethical banking.

Through a commitment to innovation and service excellence, we aim to significantly grow our market share.



WHOLESALE BANKING GROUP (WBG)

We significantly enhanced our Wholesale Banking proposition in 2020, incorporating leading digital technologies to enrich the customer experience and offer faster virtual services. We also implemented a new organisational structure that has allowed us to achieve major efficiency gains, serve our customers more effectively and emerge stronger from the global health crisis of 2020.

Despite the impact of the coronavirus pandemic on the global economy, the Wholesale Banking Group has secured a number of significant achievements during the course of 2020.

As of 31 December 2020, total assets for Wholesale Banking Group stood at AED 161 billion, whilst total liabilities were AED 102 billion. We have greatly enhanced our current and savings account (CASA) deposits by delivering enhancements to our leading-edge digital services and attracting new customers through our intuitive platforms.

In response to the extreme impact of COVID-19 on businesses, we engaged actively with all our corporate clients, with a strong appreciation for the acute needs of mid-sized corporates and SMEs. This approach drove an effective roll out of extensive relief measures in conjunction with the UAE Central Bank's TESS programme, and continuation of active dialogue is helping customers to transition out of the scheme.

What we do

ADCB's Wholesale Banking Group provides a full portfolio of corporate banking services, including investment and transaction banking, powered by a range of digital technologies that offer instant services through intuitive client interfaces. We serve a broad spectrum of clients, from government entities, large corporates and financial institutions to mid-sized corporates and commercial customers (SMEs), and maintain strategic relationships with leading banks around the world.

COVID-19 has provided additional impetus for ADCB's ongoing digital transformation across our Wholesale Banking operations and services. The Group has developed a strong digital proposition in recent years and accelerated the transition of clients to our advanced online and mobile platforms in 2020. As of year-end, 60% of trade finance transactions were conducted digitally on the ProTrade platform and 96% of cash management transactions were carried out digitally through the ProCash platform.

Our ability to serve our customers faster and more efficiently has resulted in highly encouraging results in our net promoter score (NPS¹), which rose five points to reach 71% in 2020.

In 2020, we also successfully completed a complex and comprehensive transition to a coverage-based model from a relationship-based one to better serve our clients and implemented a series of effective cost-saving initiatives.

As ADCB has scaled back its international banking presence, including the exits of our operations in London, Singapore and India, the Wholesale Banking Group continues to maintain strong strategic banking partnerships that enhance our global reach through Bank of America, Banco Santander and Kookmin Bank.

A NEW STRUCTURE FOR GROWTH

In 2020, we embarked on a major transformation journey by introducing a new coverage structure, a redefined service culture, a centralised digital model and a new portfolio management approach.

The initial phase of this development plan focused on redefining our organisational structure by standardising our front and middle office operations, rationalising our portfolio distribution and enhancing our digital channels.

Our new structure allows our relationship managers to focus purely on client relationships and revenue generation, while our experienced senior bankers concentrate on building new business leads.

A Portfolio Management Division has been created to manage and monitor the Wholesale Banking business, while a new International Banking Division provides coordination of overseas activities following the closure of our representative offices. The Transaction Banking Division has also been restructured to bring greater focus on operational efficiency and process automation.

FUTURE-READY DIGITAL TRADING

ADCB has adopted a holistic approach to digitisation that encompasses the complete lifecycle of trade transactions to drive efficient service provision.

ProTrade — our digital trade finance platform — provides our clients with the freedom to transact online at any time, from anywhere in the world. Using the platform, clients can submit applications, view a live dashboard of all transactions and generate customised reports.

ProTrade is designed to streamline and reduce trade cycles, automate supply chains and lower operating costs, making international trade financing quick, easy and secure.

¹ In line with our digital transformation strategy and the impact of COVID-19, NPS methodology was changed to digital channels in H2'20, therefore reported NPS scores are for Q1'20 only.

Since the launch of ProTrade in December 2018, we have successfully onboarded over 3,500 clients to the platform and around 60% of trade volumes for letters of credit (LCs) and guarantees are processed through ProTrade.

In 2020, we implemented a complementary automated trade finance workflow process through a new solution that speeds up the internal referrals process, tracks pending transactions and sends transaction status notifications to clients via email.

The past year has also seen significant progress toward our objective of automating clients' transactions by attracting new clients to our ProCash cash management platform, which offers businesses an efficient, convenient and safe way to manage money flows online.

New clients onboarded to ProCash reached over 24,000 in 2020; and the platform processed 549 service requests during the course of the year. Furthermore, all of our customers from Union National Bank and Al Hilal Bank were successfully migrated to the ADCB digital platforms.

To enhance the service, we launched Mobile Token 2.0, a new app that has dramatically increased the efficiency of ProCash. The app was named 'Top Innovation in Payments' at the Global Finance awards, and best 'Innovation in Cash Management' at the Top Innovators 2020 Awards by Global Finance.

As part of our efforts to enhance our existing digital channels and customer experience, we rolled out solutions for additional payment types that propelled our ProCash mobile app to the top of the market. Users of the app now benefit from a streamlined registration process, corporate salary transfers, pension and tax payments, international fund transfers, Immediate Payment Instruction (IPI) for low value near real-time domestic payments, and salary payments via a Wages Protection System (WPS).

We remain dedicated to providing the most effective and efficient customer service to our clients.

Therefore, to improve the efficiency of our service requests (SRs) we added an online Customer Self Service module in the ProCash app that allows WBG customers to raise requests. This brings multiple benefits, such as the elimination of paperwork and process optimisation. Thanks to these enhancements, we secured an increase in our net promoter score (NPS) in relation to the ProCash experience to 91% from 80% in 2019.

Broadening the scope of our digital transformation further, we launched a new corporate cheque scanning solution (CCSS) in 2020 — a market-leading web-based service that allows clients to upload data and image files in addition to manual inputs and scans, and to send cheque images and data host-to-host (H2H). The app provides for full post-dated cheque (PDC) management — including the scanning of PDCs with several dates in the same batch — and a detailed dashboard featuring comprehensive reporting metrics. All of our customers were seamlessly transitioned to this new system during 2020.

Our success in providing service excellence, particularly through digital solutions, was recognised by the Euromoney Survey, which presented ADCB with the '2020 Best Service Euromoney Cash Management Award'; and we were also named 'UAE Domestic Trade Finance Bank of the Year' at the Asian Banking and Finance Awards for 2020.

Key Digital Highlights

PROCASH REGISTERED CLIENTS

24.2K

16% increase YOY

PROTRADE REGISTERED CLIENTS

3.9K

64% increase YOY

VIRTUAL ACCOUNTS

AED 944 mn

CASA collection value as of end-2020

DIGITAL ACCOUNT OPENING

2.8K¹

New-to-bank SME & MCD clients onboarded digitally to date

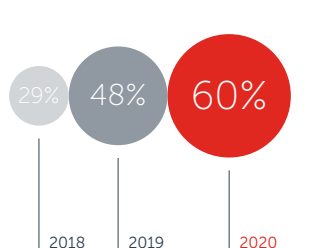
SME FINANCING

1,145¹

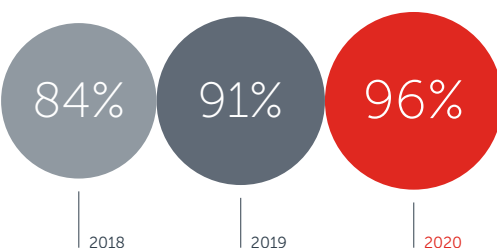
Applications logged across products using digital channels to date

¹ Life to date

PROTRADE TRANSACTIONS (% of total)



PROCASH TRANSACTIONS (% of total)



DIGITAL TRANSACTIONS

PROCASH – CASH MANAGEMENT DIGITAL PLATFORM
PROTRADE – TRADE FINANCING DIGITAL PLATFORM

VIRTUAL ACCOUNTS

Our Virtual Accounts service, a ground-breaking cash management technology solution rolled out in 2019, saw significant increases in customers, transactions and volumes in 2020.

The Virtual Account solution provides support for any company that deals with numerous clients and suppliers, improving the reconciliation of financial statements. Under a single physical account, a client is able to manage an unlimited number of virtual accounts, improving account clarity and saving costs without compromising functionality or reporting.

Over 750 clients now benefit from the solution, with total incoming transactions valued at AED 3 billion.

In 2020, we became the first Bank to offer an application programming interface (API) for opening and closing Virtual Accounts, providing instant account opening, improved reconciliation and virtual account management, and instant account closure.

PRO-ACTIVE RESPONSE TO NMC HEALTH ISSUE

When disclosure of accounting irregularities and potential fraud emerged at London Securities Exchange-listed NMC Health PLC and associated companies, ADCB as a significant creditor took a proactive and transparent approach to resolving the issue and defending the interests of the Bank and its stakeholders.

ADCB's actions during 2020 have safeguarded the operations of NMC Health Group (NMC Health) at a critical period due to the global pandemic and introduced an orderly administration process to manage a turnaround of the company, its financial restructuring and repayment of debt.

The issues at NMC Health came to light through a series of announcements by the company in February and March 2020 that exposed the full reality of the financial issues, including an additional USD 4 billion in previously undisclosed debt that indicated a significant risk of insolvency.

ADCB was among more than 80 major regional and international financial institutions that had extended credit to NMC Health.

ADCB Group had provided credit facilities at the corporate level to NMC Health, which were guaranteed by the London listed entity NMC Health PLC. Following the three-way merger in May 2019, ADCB's total credit exposure of USD 981 million to NMC Health comprised USD 767 million of facilities extended by ADCB, USD 147 million by the former Union National Bank (UNB) and USD 67 million by Al Hilal Bank (all exposures prior to the merger).

Following the disclosures by NMC Health, ADCB took immediate action to protect its interests, successfully filing in UK courts for NMC Health PLC to enter into administration. Alvarez & Marsal was subsequently appointed as joint administrators with a mandate to ensure stability and the continuation of uninterrupted healthcare services at NMC Health's medical facilities. The administrators were also tasked with implementing robust governance, conducting a full, transparent investigation into suspected previous irregular financial activity and taking adequate steps to initiate the recovery of any missing assets and funds.

ADCB continued to work closely with the administrators and other creditors on a restructuring plan that builds value at the company for the benefit of all stakeholders.



In 2020, the Bank recorded significant provisions and interest in suspense (AED 1.656 billion) on NMC Finabl and other NMC associated companies. The Bank is comfortable with these provisioning levels, which are in line with independent assessments on value and recoverability, given the positive developments in NMC's recent financial performance and its ongoing restructuring process.

NMC adopted a three-year business plan under the auspices of the ADGM-regulated administration and its financial performance has made measurable progress in the second half of 2020. ADCB, together with a syndicate of lenders, participated in a USD 325 million Administration Funding Facility (AFF) to ensure operational continuity of NMC and to pave the way for restructuring. Participation in the AFF has placed the Bank in a stronger position to maximise the potential for its recoveries. NMC's restructuring plan is scheduled for approval by creditors in the first half of 2021.

FUTURE FOCUS

The Wholesale Banking Group continues to pursue opportunities for growth in line with ADCB's robust risk management framework, which reflects the challenging global macro-economic environment.

Following the successful transition to our new coverage system, we will continue to leverage our scale and the multiple new digital services introduced in 2020 to deliver world-class services, with a particular focus on continuing to increase CASA deposits, fee income and corporate market share.

The Group will move forward with our digital transformation programme to increase our offering of products and services, and enhance convenience for our customers, while delivering significant operating efficiencies.



TREASURY AND INVESTMENTS GROUP

The Treasury and Investments Group continued to deliver a strong performance and achieved a high level of stakeholder confidence in 2020 by responding swiftly to the disruptions throughout the year and becoming more adaptable and dynamic in its approach. The Group has streamlined its operations and secured new efficiencies by delivering ground-breaking upgrades to its systems and processes.

In a year of considerable market volatility and business disruptions, the Treasury and Investments Group continued to deliver a strong performance and enhanced operational efficiency.

The Group was decisive in its response to the external shocks and has successfully mitigated, and benefitted from the continued volatility. It has adopted an effective tactical approach in response to the low interest rate environment by exiting expensive time deposits while broadening its relationships with key clients and expanding CASA (current and savings account) deposits. This contributed to a significant reduction in cost of funds during the year. The Group also opportunistically increased the size, tenor and duration of the Bank's investment portfolio as well as the fixed rate risk of the book to improve interest income.

Reacting rapidly to remote working requirements, the Group implemented specific measures that ensured the necessary level of access. This enabled the Group to operate effectively in a real-time trading environment, while extending the security infrastructures to allow for working from home.

The Treasury and Investments Group also succeeded in achieving an impressive NPS score of 77% in 2020, following a seamless transition to remote working in response to the requirements and directives issued by the UAE government to safeguard the population.

During the year, the Bank also achieved accreditation to become a primary dealer in the Monetary Bills Programme recently launched by the UAE Central Bank.

WHOLESALE FUNDING

Treasury completed a number of major capital markets and other wholesale funding transactions, including:

USD 590 mn

Issuing a total of USD 590 million in the Formosa Market (bonds listed on TPEx)

USD 300 mn

Raising USD 300 million from a 5-year floating rate note listed on both TPEx and Euronext Dublin Loan facilities totalling USD 750 million

USD 1,770 mn

The Group increased its reliance on its repurchase agreement (repo) platform and opened a new product line to diversify sources of funding, borrowing USD 1,770 million from the secured market in transactions split into long- and short-term repos.

PREPARING FOR REGULATORY ROADMAP AND TECHNOLOGICAL EVOLUTION

By taking a proactive and holistic approach to developing technology and systems — including hardware, software, databases and models — the Group is now well positioned to adopt the latest models and international best practices in treasury, and to adapt to future changes.

The Murex Upgrade, New Collateral and the Standard Initial Margin Model implementation projects were delivered to plan and under budget in 2020. The projects spanned around 18 months and involved the Treasury Front, Middle and Back Offices, Market Risk, Finance, IT and Operational Risk as well as Credit Admin and external vendors.

This vital upgrade represents the early stages in a broad regulatory roadmap and an important precursor to the Bank's full LIBOR Transition project. The Bank has established a cross-functional committee and put in place detailed plans for this forthcoming transition.

The Treasury and Investments Group is also in the process of revising and updating its internal treasury and risk management systems to calculate Secured Overnight Funding Rate (SOFR), which is the preferred replacement for US Dollar LIBOR. In addition to internal training regarding this transition, the Group launched a preliminary communications exercise in 2020 to foster customer awareness and knowledge of the new mechanism.

Other new changes in compliance include the introduction of the full range of Basel III guidelines, including for Capital Value Adjusted (KVA), Market Value Adjusted (MVA), Standardised Duration Approach and settle-to-market (STM).

OBJECTIVES FOR 2021

In the coming year, the Treasury and Investments Group will continue to focus on increasing scale and optimisation, as well as further streamlining the efficiency of its systems and processes, while also collaborating closely with other areas of the Bank to better support clients.

What we do

The Treasury and Investments Group offers diverse conventional and Islamic solutions covering the full range of financial products, from foreign exchange, money markets and fixed income opportunities through interest rate, currency and commodity derivatives, as well as various investment and risk management solutions.



PROPERTY MANAGEMENT



37,100

Lease renewals completed

15,500

Landlord requests administered

1,250

Landlords registered for online services

4,230

Additional rental units joined our portfolio

170

UAE-based SME vendors supported

1,420

Upgraded fire alarm monitoring installations

As a leading force in the UAE's real estate space, we continue to strengthen our position in this prominent sector via our extensive property management capabilities and expanding service proposition.

ABU DHABI COMMERCIAL ENGINEERING SERVICES (ADCE)

Despite the significant disruption caused by the global coronavirus pandemic, ADCE continued to work closely with the government and authorities in Abu Dhabi to deliver high-quality commercial buildings to ever-increasing standards of construction.

Our unique business model and robust governance structure continue to set the bar for best practices in the sector, while our rigorous adherence to well-defined procedures ensure high standards of professionalism and accountability.

We remain committed to delivering service excellence and to maintaining our status as the partner of choice for a broad range of complex regional development projects, leveraging our diverse and highly skilled team of evaluators, engineers and architects.

Across our key government, private and technical service portfolios, we deliver a comprehensive suite of highly efficient building design, construction development and project management services, with project values ranging from AED 50 million to AED 1 billion.

ABU DHABI COMMERCIAL PROPERTIES (ADCP)

One of the largest and best-known property management service providers in the UAE, ADCP manages an extensive portfolio of more than 2,000 buildings, representing more than 57,000 residential and commercial units throughout the UAE.

Our services, which span tenant management, leasing, facilities management and project management, are provided by an experienced team of 280 real estate professionals.

In 2020 ADCP launched 24/7 secure online landlord and tenant services and a dedicated helpdesk. It also introduced online appointment booking, and a new Tajdid remote lease renewal service, which has so far allowed over 8,000 tenants to renew their tenancy agreements without leaving their homes.

Another key achievement for the year was the renewal of the agreement for the provision of property management services to the Abu Dhabi Government's Department of Finance, representing further validation of our ongoing service performance by our valued partner.

RESPONDING TO COVID-19

In response to the COVID-19 crisis, ADCP and ADCE implemented a number of measures to protect our tenants, landlords, suppliers and staff.

We immediately rolled out enhanced sanitisation programmes to all managed buildings and their facilities, escalating the frequency of sanitisation across our entire managed portfolio, in accordance with the regulations mandated by the Federal Health Authority.

Capacity restrictions were introduced across all of our operating locations, where waiting area seating was reduced, and thermal scanners and protective screens installed, to safeguard the well-being of our staff and customers.

ADCP and ADCE were also authorised to release payments of up to AED 5 billion for contractors and other business partners within 30 days of approval. Administration fees for properties rented by affected tenants were waived for three months and rental payments accepted in monthly instalments for all ADCP tenants.

Furthermore, an online documentation submission and correspondence platform was enabled for our partners, in order to ease the burden of business processes during the pandemic, and a dedicated online platform jointly deployed between ADCE and the Department of Finance was launched to document, track and manage project-related correspondence and decisions.



8,000+

Tenants renewed their tenancy agreements remotely



100%

Completion of sanitisation programme for managed buildings

What we do

Through our subsidiaries, Abu Dhabi Commercial Engineering (ADCE) and Abu Dhabi Commercial Properties (ADCP), we provide a full range of property services in the UAE.



GROUP BUSINESS SERVICES (GBS)

Our deep-seated digital expertise, honed through our long-term digital transformation strategy, ensured that the Bank was well-prepared to deal with the impact of the COVID-19 pandemic. Not only did GBS safeguard operations, but it also succeeded in strengthening and enhancing the customer experience throughout 2020.

Against the growing cloud of COVID-19, the year began with the successful completion of IT systems integration following our merger with Union National Bank (UNB) and the acquisition of Al Hilal Bank. As a result of meticulous planning and preparation, the banking systems were unified, while former UNB customers were transferred to ADCB systems, applications and digital banking platforms.

Despite the challenge of working remotely, the cross-functional integration teams worked tirelessly to ensure a smooth transition in just 38 hours with minimal disruption to systems and channels. More than one million customers now enjoy the benefits of ADCB's convenient and highly efficient internet and mobile banking as well as a wide range of enhanced products and services.

What we do

Group Business Services (GBS) represents the engine room of the Bank, powering our operations by securing the technology, systems and processes that allow us to deliver exceptional, reliable services to our customers. In doing so, GBS stands at the core of our strategic journey, working to pave the way for our collective digital evolution.

OPERATIONAL CONTINUITY

As the severity of the COVID-19 pandemic became apparent, we rapidly moved to protect our employees' health and safeguard our customers, while ensuring operational continuity. Within just a few days, we ensured that the majority of our employees had the facilities to work securely and safely from remote locations. We also established a secure virtual customer contact centre to support our more vulnerable customers.

Our swift response was as a result of our well-established Crisis Management Framework and detailed Business Continuity Plans, supported by our robust project management capabilities.

This enabled the rapid implementation of infrastructure upgrades and virtual desktop licences that ensured full-scale remote working in just two weeks. Where appropriate, we moved staff to alternative buildings to minimise interaction and meet all applicable health and safety measures.

Ultimately, we rolled out around 6,500 secure virtual desktops, enabled more than 7,000 users across our collaboration tools, distributed more than 800 laptops and desktop devices, and activated around 500 home-based contact centre staff via softphones and remote call recording.

Meanwhile, it was essential to ensure we maintained our key branches' operations and that customers and staff were fully protected. We continually reviewed all health and safety arrangements and kept our premises secure and in compliance with government directives. This included a deep cleaning and sanitisation programme encompassing almost 155 buildings, all conducted out of working hours.

CONTINUING TRANSFORMATION TO DRIVE STRATEGIC PROGRESS

ADCB's digital transformation strategy has driven our success and helped mitigate the impact of the COVID-19 pandemic on our business. As a result of our advanced digital capabilities and a strong agile working culture, we were better able to overcome lockdown challenges and meet our customers' evolving needs.

Our customer-centric digital transformation serves to empower the Bank in line with our new five-year corporate strategy. Working in close collaboration with all departments across ADCB, we continue to support and enhance efficiency and productivity, facilitating the delivery of products and services.

By scaling-up our data collection and analytics capabilities, we provide hyper-personalised experiences for our customers, tailoring our product releases to meet clients' requirements and powering a data-driven strategic digital transformation.

This year, we delivered several digital initiatives to streamline and enhance the customer experience, promote efficiencies and drive the Bank's performance.

We rolled out an enhanced wire transfer beneficiary registration system on our mobile internet banking (MIB), reducing the length of registration of new beneficiaries from two days to a single 'tap'.

Elsewhere, we improved processes to reduce the time required to launch new products and services, including introducing a one-time transfer capability, removing the need to add beneficiaries.

Other improvements included near-instant credit card loan funds on the Hayyak app, as well as AMEX payments in AED and USD, new personal loan top-up features and user experience upgrades, such as Privacy Mode and Transaction History on our mobile banking app.

Meanwhile, we implemented a Global Payment Initiative (GPI) system that notifies remitters when the funds are credited to the beneficiary account. This was in response to feedback from customers who sought reassurance that their transfers were reaching beneficiary accounts.

As part of our ongoing technological development and engagement in 2020, ADCB became the first banking partner of Hub71, a global tech ecosystem located in Abu Dhabi. The partnership provides access to Hub71's growing and dynamic ecosystem of start-ups, accelerators, investors, government, corporates, academic institutions and global tech companies.



LOOKING AHEAD

This relationship provides a platform for the Bank to support Abu Dhabi's future tech leaders and allows us to leverage Hub71's fintech community to develop innovative solutions that will help us shape the future of banking.

Our digital marketing activities through social media continues to grow. In 2020, we surpassed our annual engagement targets for Instagram, LinkedIn, Twitter and Facebook, engaging a growing number of people.

At the same time, our data scientists' team continued to develop our digital analytics capabilities to enhance customer engagement.

Meanwhile, the ADCB website was recognised at the annual Webby Awards as a 'Webby Honouree' for the Best Homepage, ranking in the top 20% across more than 1,300 entries from over 70 countries.

SUPPORTING OUR PEOPLE

We value the opinions of our customers and our employees. Our people are some of the most talented in the industry and can use their insight and experience to fuel innovation across the Bank.

Understanding their concerns is also a vital part of building on our success. This year, we sought employee feedback through our Bank-wide Afkar programme that enabled all those working across ADCB to make suggestions and provide innovation ideas.

It is also important for us to ensure that our employees are engaged and satisfied. In 2020, we continued to achieve consistent improvements in our Net Promoter Scores, which measure customer experience and predicts business growth.

The COVID-19 pandemic has fundamentally changed the economic landscape and supercharged the need for seamless, digital banking. Thanks to our long-term digital strategy, we have already ensured our customers benefit from smooth, efficient, intuitive and secure digital services. We are well-positioned to meet this new age of hyper-efficiency.

We will continue to provide the speed and security expected by our clients and colleagues as we further develop and refine our IT platforms and technological support. Above all, we will continue to leverage our digital capabilities to elevate the customer experience, adding greater value for all our stakeholders.



HUMAN RESOURCES (HR)

In 2020, our Human Resources team implemented an enhanced programme of new employee services in a challenging environment, whilst ensuring the safety and well-being of each one of our staff. Despite the significant additional pressure created by the need to achieve a major transition to remote working, and the implementation of an entirely new learning management platform, HR again succeeded in delivering unrivalled employee satisfaction and productivity.

In these extraordinary times, amid the immense disruption caused by the global COVID-19 pandemic, the goal of ADCB's Human Resources Group has been to support employees and managers in navigating this exceptional environment, thereby ensuring business continuity through our people.

The HR response to the crisis was both immediate and decisive. Overseen by a dedicated steering committee, we immediately moved to ensure compliance with the comprehensive scope of related government regulations and guidance.

The well-being and productivity of our people were our primary concerns; therefore, we sought to gather their feedback through a detailed survey on a variety of aspects of the new working environment, in order to generate actionable responses and take action wherever needed.

Employee communications was vital in this regard. Even as the HR function transitioned seamlessly to virtual operation, with no interruption in service levels, we continued to communicate with our people — including on an individual basis, where required — to ensure their physical safety and mental health.

What we do

By maintaining our exceptional employee value proposition, ADCB's Human Resources function delivers the Bank's strategic objectives, cultivating its distinctive culture, unparalleled working environment and progressive digitisation. We remain committed to ensuring the continuous health, well-being and professional development of our staff, and the empowerment of UAE Nationals through Emiratisation. In this way, we aim to serve the interests of our people, stakeholders and the nation, as we emerge from the global pandemic stronger and more unified.

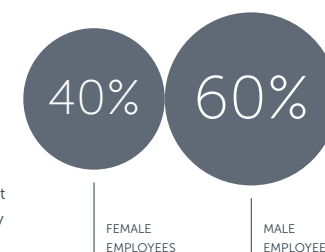
A TALENTED, DIVERSE AND COMMITTED WORKFORCE

In keeping with our core values, we employ a highly diverse, multi-cultural and multi-talented workforce that comprises more than 80 nationalities. We are also fully committed to supporting the female empowerment efforts of the UAE government; as of the end of 2020, 40% of ADCB's workforce was female, whilst 41% of Al Hilal Bank's workforce was female.

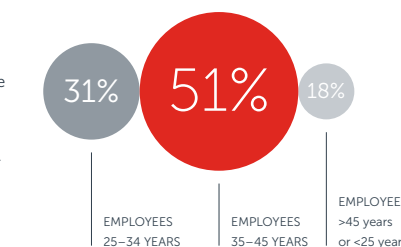
Although disrupted by the pandemic, HR continued to enhance the capabilities of our people during 2020, providing them with specific skill sets applicable to ADCB's strategy and digital transformation.

Employee retention is a key pillar of our HR approach. Among our senior management, the average length of service is 10.6 years, which is almost double the average tenure for senior professionals in the top 1,000 US companies, as reported by the Korn Ferry Institute. Similarly, the majority of the highly experienced members of our Management Executive Committee have been with the Bank for more than 15 years.

These impressive retention rates come largely as a consequence of our efforts to maintain the highest levels of employee satisfaction. An employee engagement survey in October 2020, which had a response rate of 91%, revealed an overall engagement score of 87%, representing an 8-point increase over our previous survey.



ADCB EMPLOYEES BY GENDER



ADCB EMPLOYEES BY AGE

This illustrates the way in which our family of employees has embodied our values as an institution, resulting in a high level of resilience in the face of the uncertainty presented by the current global health crisis.

True to our commitments, our monthly Tamayuz employee awards — which recognise outstanding employees and teams — continued without disruption, despite COVID-19 and our new remote-working arrangements.



ADCB EMPLOYEE ENGAGEMENT SURVEY RESULTS

The programme serves to inspire our people to make the extra commitment that sets us apart in our sector, and forms the core of ADCB's values and ability to work as a single team.

A total of 2,259 employees were recognised across the four categories of the programme: Service Excellence; Team Award; Star Award; and Employee of the Quarter. In addition, in 2020, we thanked 588 employees for their dedication to the Bank and contributions to its success by distributing Long Service Awards.

NURTURING NATIONAL TALENT

ADCB is a major force in the ongoing process of Emiratisation in the UAE banking sector — and the emirate of Abu Dhabi as a whole — and remains committed to the Abu Dhabi Government's economic vision and related Emiratisation strategy.

We continued to hire talented Emiratis throughout the year, strengthening our employee value proposition and exceeding all national Emiratisation targets. As of end-2020, we employed 1,482 UAE Nationals, solidifying our position as one of the largest employers of Emiratis in the industry. UAE Nationals now occupy 30% of our Executive Committee and 95% of management roles across our branches. Meanwhile, our recently acquired subsidiary, Al Hilal Bank, achieved a sector-leading Emiratisation of 50%.

Female Emiratis account for 79% of the Bank's total UAE National workforce, and our award-winning Tamooha programme continues to assist female UAE Nationals to develop career paths and access professional opportunities. A total of 184 female candidates passed through Tamooha in 2020. Tamooha, one of the most successful initiatives in the country, embodies our commitment to support the ambition of Emirati women who wish

to pursue engaging and propelling careers without compromising their social values. It provides them a supportive and suitable environment to apply their talents and contribute to their families and the national economy.

2020 also saw increased investment in the professional development of UAE Nationals, with a particular focus on enhancing the skills and knowledge of those who joined the Bank through the merger.

CONTINUING PROFESSIONAL DEVELOPMENT

ADCB prides itself on attracting the finest talent in the sector and provides continuous training opportunities for career development and advancement. Talent development is a strategic priority for the Bank, and we seek to continuously build the skills of our employees to support the growth of our business by investing in professional training.

Our in-house Ambition University (AU) offers courses to all employees and we partner with well-established providers, such as the London Institute of Banking and Finance (LIBF), to develop joint training programmes for staff. In 2020, over 6,200 employees completed courses through the AU and over 130 UAE Nationals benefitted from our LIBF collaboration.

The AU aligns employee development progress with our strategic goals, undertaking training that adds value for the Bank's business, shareholders and customers. It is mandatory for every employee to complete core AU training modules linked to regulatory requirements, such as anti-money-laundering (AML) and know your customer (KYC), at regular intervals.

Through Ghadan 21, Abu Dhabi's accelerator programme, HR collaborates on a cross-functional project with Abu Dhabi Global Markets (ADGM) and the Abu Dhabi Human Resources Authority (HRA) to deliver the Bankers Programme for ADCB. This programme employed 47 high calibre UAE Nationals in 2020, providing them with six months of classroom and on-the-job training.

Following integration with Union National Bank and Al Hilal Bank, HR adopted a data-driven approach, conducting culture and performance surveys of the merged banks, including an Organisational Health Index (OHI) survey with a leading international consulting firm. Based on the results of these surveys, we designed a wide range of training and on-the-job development programmes to harmonise skill sets before successfully onboarding new employees to ADCB.

Whilst COVID-19 instantly disrupted all face-to-face classroom learning, we successfully transitioned our entire programme to digital platforms, ensuring that all training would continue uninterrupted.

In addition, after a year of planning, we introduced a new Learning Management System (LMS) on an advanced platform. This new system will facilitate and enhance organisational learning to have a positive impact on overall experience.

We also initiated a highly challenging new measure to gauge our performance — the net promoter score (NPS) for learning and development. Applied for the first time in 2020, this demanding new benchmark produced a score of 88% among employees.

Overall, across our professional development offering, we succeeded in delivering our target of over 170,000 hours of learning in 2020. In total, over 4,200 employees undertook (self-paced) e-learning courses during the year, while we had over 5,500 individual participants for our virtual, live online learning sessions.

LOOKING AHEAD

As the pandemic persists into 2021, the HR function will continue to prioritise the health, safety and well-being of our employees and other stakeholders, whilst also ensuring our remote working infrastructure and processes facilitate the efficient operation of the Bank.

Our focus will intensify on encouraging and cultivating promising young Emiratis, with a view to establishing a strategic base of UAE National talent. In particular, we aim to promote further digital learning among this talent pool, which will be instrumental in contributing to, and influencing, the Bank's digital transformation programme going forward.

Digital readiness is a key pillar of the Bank's development paradigm, and HR will maintain a rigorous programme of upgrades and improvements to our digital infrastructure and employee communications.

At the same time, we will endeavour to further refine and improve the work-life balance enjoyed by all our employees.

SUBSIDIARIES



AL HILAL BANK



Our vision is to become the first fully retail digital Shari'ah-compliant bank in the UAE — an entirely new type of bank for a new era. Our services will cater to needs that stretch well beyond the realms of traditional banking. Customer-centricity, above all, will be our guiding philosophy throughout this important evolutionary leap in our development.

Far from being dissuaded from our central, strategic goal during the disruption of the COVID-19 pandemic, we have crystallised our strategy to transform Al Hilal Bank into the nation's first fully retail digital Islamic bank, whilst continuing to offer our customers exceptional, uninterrupted banking services.

To safeguard our people and processes in response to the spread of the virus, we immediately created a dedicated team to ensure business continuity and engagement with employees during the crisis. Our primary objectives at the onset of the pandemic were clear: to ensure both the health and well-being of our staff, and the uninterrupted delivery of services to our customers.

We quickly moved to increase cash withdrawal limits via our ATMs to support customer needs and reduce branch visits, and aside from the closure of our mall outlets until July, all branches remained operational on a single-shift service basis. Despite the extraordinary circumstances, we achieved a 60% net promoter score (NPS) for our branch services.

We worked to ensure business continuity across all emirates in our network; quick services were provided through our contact centre; and we launched a virtual 'Seghaar' kids account opening service to reduce the inflow of young people to our branches.

Those staff most at risk from the virus were given the option to work from home, whilst all pregnant employees were immediately transferred to remote working. The head office worked at 30% capacity and branches at 50% capacity, both on bi-weekly rotations in line with PCR checks for all staff to ensure their safety and the safety of others.

By quickly adapting to this unprecedented situation and its constraints, we were able to innovate to a greater degree than before the onset of the pandemic, driving forward with our digitisation strategy while also developing our digital marketing and customer engagement channels.

FUTURE-READY DIGITAL SERVICES

Having completed our integration with ADCB with exceptional speed and efficiency, we turned our attention to achieving synergies. Thanks to effective collaboration and teamwork our customers faced no disruptions during our induction into the ADCB family. Indeed, the integration committee placed customer needs and expectations at the heart of the process.



Capitalising on ADCB's digital development and infrastructure, Al Hilal Bank revamped its website and launched a new onboarding app — Ahlan — which is based on the platform employed by ADCB's award-winning Hayyak app.

The Al Hilal Bank of the future will build on this approach and take the form of a heavily customer-focused digital platform, featuring a broad marketplace of offerings and services, including a comprehensive suite of Shari'ah-compliant banking products. Through this evolved offering we aim to surpass traditional banking services to attract a new generation of retail customers for whom ethical and transparent banking is of increasing importance.

Our vision is of an institution that empowers customers to dictate the form and function of their banking platform, in a manner that moves beyond the familiar concept of internet and mobile banking. In short, we intend our forthcoming platform to represent an evolutionary leap in digital banking, delivered in a way that is highly intuitive, user friendly, ethical and free of hidden fees and charges, and offers proactive — rather than reactive — customer support whenever needed.

OUR EXTENSIVE DIGITAL CREDENTIALS

Our digital offering continues to expand and evolve in line with this strategic transformation. Indeed, the majority of the Bank's transactions and processes are already digital. In 2020, 63% of all customer transactions were completed via mobile banking, compared to 24% of transactions through ATMs, 11% of transactions through our branches and contact centre, and 2% through IVR phone banking.

Digital transactions in Q4 2020 were 13% higher than the previous quarter, while digital wallet transactions

were up 36% quarter on quarter. Our registered mobile and internet banking users have risen from 37,000 customers in Q4 of 2019 to 65,000 at year-end 2020. New customers onboarded digitally rose from 2,000 in Q1 2020 to 7,400 in Q4 2020.

We are already one of only a handful of banks who support a complete line-up of mobile pay options — including Apple Pay, Google Pay, Samsung Pay, FitBit Pay and Garmin Pay. In June we completed the sale of Al Hilal Takaful — our Islamic insurance subsidiary — driven by our focus on delivering high-quality, primarily digital retail banking services.

In recognition of this strategic direction toward digital banking, we received the 'Best Digital Account Opening, Middle East' award for our Ahlan onboarding app from The Digital Banker's 2020 Global Retail Banking Innovation Awards, in which 23 banks participated. Today almost 81% of our new customers are onboarded via Ahlan, which allows customers to open a new account in minutes.

PEOPLE

As we transition to our digital platform, we continue to build our new teams and upskill our staff in preparation for executing our strategy for a fully digital future.

While the integration into ADCB has made us leaner and more efficient, this has allowed us to concentrate more keenly on promoting local talent. Today, 50% of our employees are UAE Nationals — the highest proportion in the UAE banking industry.

We are now focussed on developing the skill sets we require to realise this future, whilst also raising the skill levels available internally to meet the many other new demands of our transformation.

LOOKING AHEAD

We remain focussed on positioning ourselves for our new digital future, with customer experience as our top priority. We will continue to make greater use of data analytics and behavioural economics to help drive this digital strategy and ensure our technology meets the needs of our digital-savvy Islamic retail customers.

As long as COVID-19 remains a pressing concern around the world, we will continue to emphasise the ongoing good health and well-being of our staff and customers and ensure full compliance with the directives and measures of the UAE government and authorities.

Simultaneously, as we continue to grow our digital service throughout the coming year, we will seek to maintain our exceptional recent onboarding record, train more of our people and recruit more expertise to power the digital transition, and maintain our excellent service levels whilst we transform into a more agile future-ready bank.



74%

Increase in customer registrations on digital platforms in 2020



ADCB EGYPT

The driving vision of ADCB Egypt is to bring about a new era in the nation's banking sector, by becoming a market leader in the provision of innovative financial services to individuals and institutions, and transforming the country's digital banking landscape.

A LANDMARK YEAR FOR ADCB IN EGYPT

ADCB Egypt, our newly re-branded subsidiary launched in 2020, is a full-service bank, providing both corporate and retail banking that is positioned to become the nation's preferred bank.

With a national footprint of 47 branches and total assets of EGP 34 billion, we aim to offer a unique customer experience by leading the digital development of Egyptian banking. We leverage the strength of ADCB to deliver a full suite of advanced, competitive, innovative and highly secure financial solutions, with a strong focus on sustainability and customer satisfaction.

Our strategic commitments are to achieve growth by capitalising on the wealth of opportunities in our highly lucrative local market, whilst delivering sustainability through the development of a strong deposit base.

ADCB Egypt is also dedicated to attaining the highest levels of quality and efficiency across all our financial products and banking services, whilst treating our customers with integrity and fairness and effectively managing risk.

Our strategic objectives are complemented by the strength of the ADCB Group's values — Integrity, Ambition, Discipline, Care and Respect — which are embodied by each of our employees. Consequently, they are felt throughout the delivery of our services and in every interaction with our colleagues and customers.

Launching the ADCB brand in Egypt

Having undertaken a complete re-branding of former Union National Bank's (UNB) operations and branches in Egypt in August 2020, ADCB Egypt was revealed to the market through a broad engagement campaign.

Within the Bank, we updated and revitalised our internal branding, creating inspiring spaces for employees and clients and transforming all 47 of our branches and our head office.

The success of the launch was recognised by the 2020 Arab Banks Awards & Commendations of Excellence, which named ADCB Egypt as the 'Best Promising Brand'.

SUPPORTING THE NATION AND ITS PEOPLE

In facing the coronavirus pandemic, ADCB Egypt immediately moved to show its full support and commitment to the people of Egypt, donating a total of EGP 10 million to the Tahya Misr Fund to support its efforts to combat COVID-19 across the nation.

The health and well-being of our people was an urgent priority, and we immediately moved to achieve compliance with the directives and guidelines of the government, the Central Bank and the Union of Egyptian Bankers.

As well as introducing remote working for many of our employees, we implemented a comprehensive programme of precautionary measures at all our premises to safeguard our people and walk-in customers. This included the provision of face masks, sanitisers, glass shields, social distancing and temperature checks across all of our 47 branches.

STRONG GROWTH AND PERFORMANCE

ADCB Egypt delivered strong financial performance for the year with net profit rising 14% to EGP 491 million. Net loans rose 32% to EGP 16.561 billion and customer deposits increased 14% year on year to EGP 29.084 billion.

LOOKING AHEAD

Capitalising on our new brand, and driven by the energy and commitment of our people, our strategic goals are to achieve rapid growth in the Egyptian market by continuing to provide competitive services that exceed customer expectations.

A detailed programme of measures to improve liquidity and reduce cost base will be initiated, alongside new products to support the growth of savings and current accounts, and upgrades to strengthen our financing and operating systems.

In line with the strategy of the Group, ADCB Egypt has embarked on a digital transformation journey that will see the introduction of advanced online, mobile and ecommerce services, including a new corporate internet banking platform to support our business operations, and new cash management products.

To further strengthen our process efficiency, ADCB Egypt will develop a strong technological infrastructure to enhance business automation while implementing the best governance and controls practices.

Following on the success of our launch, we plan to grow awareness and strongly position the Bank in the Egyptian market through targeted communication activities.

Above all, we will remain focused on continuously improving our products and services to provide our clients with the banking experience they deserve, each and every day.



EGP 34 bn

ADCB Egypt — Total assets



OTHER SUBSIDIARIES

ADCB Group's subsidiaries complement our core banking business through their strong brands and value-added business activities, ranging from property management and project management to securities trading and operational support. Individually and collectively, they create value for the Bank as well as our customers, partners and wider economy.



MOHAMED BINBREK
General Manager

Established in 2007, ADCP operates the largest mixed-use leasehold assets portfolio in the region. It provides tailored property management services, representing government, private and corporate real estate owners across the UAE.

40,990
E-CHANNEL REQUESTS
PROCESSED

57,220
INDIVIDUAL LEASEHOLD
TENANCIES ADMINISTERED

15,500
PROPERTY OWNER
ENQUIRIES SERVICED

4,230
UNITS ADDED TO ADCP
MANAGED PORTFOLIO



HAZEM JABER
General Manager

Created in 2007 as the engineering arm of ADCB, ADCE is a one-stop shop for all engineering-related project management services, from design conception to completion. Its modern, innovative designs, situated throughout the city, are built to last — and its business is founded on strong client relationships.

3,479
TECHNICAL MEMOS
ISSUED

436
VENDORS ADDED

1,490+
WORKING WITH
CONTRACTORS AND
SUB-CONTRACTORS

1,660
LANDLORDS

774+
PROJECTS



HASAN SALEM AL HOSANI
General Manager

ADCB Securities is a brokerage house that offers its customers access to trade on the UAE stock exchanges. A wholly-owned subsidiary of ADCB, it is regulated by the SCA (Securities & Commodities Authority) to provide trading services on ADX (Abu Dhabi Securities Exchange), DFM (Dubai Financial Market), and NASDAQ Dubai.

AED 21.7 bn
TOTAL ASSETS UNDER
CUSTODY

AED 3.2 bn
TOTAL TRADE VALUE
THROUGH ONLINE TRADING
CHANNELS

AED 258 mn
TOTAL LENDING THROUGH
MARGIN ACCOUNTS

17,000+
TOTAL CLIENT BASE



ASHOK LUHARUWALLA
General Manager

ITMAM, meaning 'we get things done' in Arabic, was established to provide operational support to ADCB Group, including account opening, payments processing, and credit underwriting and contact centre operations, among others. The creation of the company with a service-focused NPS framework enables the Bank to pursue a more customer-oriented business model.

98%
OVERALL SERVICE LEVEL
TARGETS ACHIEVED

12%
INCREASE IN TOTAL
VOLUMES

69%
CONSUMER BANKING
ACCOUNTS OPENED
THROUGH HAYYAK

91%
IMPROVED PARTNERSHIP
INDEX RESULTS

Environmental, Social & Governance (ESG) Review

SUSTAINABILITY AT ADCB

ADCB is proud to leverage its position as one of the UAE's major financial institutions to contribute to and promote the national agenda. By aligning with UAE Vision 2021, ADCB has been an active and vital player in driving the UAE's progress towards a competitive and knowledge-based economy, bolstering societal development, economic growth and environmental protection.

The Bank supports the UAE Government in its endeavours to achieve the United Nations Sustainable Development Goals (SDGs). At the emirate level, we orient our efforts towards strengthening our community. Given this priority, we support the Abu Dhabi Economic Vision 2030 to work collaboratively towards the sustainable development of the capital.

We believe that, for our efforts to have a constructive impact at the emirate and national levels, we must ensure that sustainability is embedded in all facets of our operating model, through effective implementation of our Environmental, Social and Governance (ESG) responsibilities.

As part of developing our sustainability strategy, we involve our Management Executive Committee (MEC) and sustainability champions to reflect pan-organisation perspectives and opinions. Through a detailed materiality assessment, we identified key focus areas that are considered important to our stakeholders, which are mapped to the following sustainability pillars:

SUSTAINABILITY PILLAR	FOCUS AREAS	MISSION STATEMENT	RELATED SDGs
GOVERNANCE AND ETHICS	– Risk management – Data security & privacy – Corporate governance – Anti-corruption	Ensuring a stable foundation to allow responsible management, accountability and decision-making through strong governance and the highest ethical practices	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 
ACCESSIBLE BANKING	– Access to digital products – Financial inclusion & accessibility – Customer experience	Enhancing customer experience and product offerings by leveraging digitisation to advance financial inclusion	9 INDUSTRY INNOVATION AND INFRASTRUCTURE  10 REDUCED INEQUALITIES 
UAE CENTRICITY	– SME-focused financial access – Emiratisation – Supply chain – Community engagement	Serving the community through addressing local needs by improving financial access, employment and support for local businesses and initiatives	4 QUALITY EDUCATION 
SUCCESS ENABLERS	– Talent attraction, retention and management – Workforce diversity – Health & safety – Environmental management	Building capacities for the future by embedding leadership skills, complemented by a safe and inclusive work environment that capitalises on the unique experiences and diversity of our workforce	5 GENDER EQUALITY  8 DECENT WORK AND ECONOMIC GROWTH 

We believe that directing our efforts and resources towards these pillars will significantly and positively impact our ability to execute our Group corporate strategy to deliver long-term value and address the evolving needs of our stakeholders. Synergising our sustainability pillars with the pillars of our corporate strategy will allow us to appreciate our mission and vision through a more complete and comprehensive lens.

We have referred to the Global Reporting Initiative (GRI) standards for guidance on conducting the materiality assessment, as well as the selection and disclosure of our sustainability information in this section of the Annual Report. This chapter, therefore, provides a snapshot of the current status of our ESG journey, along with a summary of key achievements over recent years.¹

¹ Unless otherwise stated, the data included in this section covers the ADCB Group's operations within the UAE.

GOVERNANCE AND ETHICS

Robust corporate governance policies and effective risk management controls are paramount to ADCB's long-term success, and we are committed to fostering a corporate culture that holds integrity and our values at its core.

CORPORATE GOVERNANCE

ADCB has high standards of corporate governance that have created a strong foundation to promote economic growth by strengthening the trust and confidence of all our stakeholders. The Bank's Board of Directors comprises 11 members and has three standing Committees:

- **Board Audit & Compliance Committee (BACC):** BACC is responsible for assisting the Board in its oversight of the integrity of financial statements; internal policies and internal control over financial reporting; compliance with legal and regulatory requirements; and independence and performance of external and internal auditors. All four members of BACC are considered independent and industry experts, as they have extensive experience in the financial sector.
- **Board Risk & Executive Committee (BREC — previously Risk & Credit):** BREC is an independent five-member Committee whose members have extensive risk management expertise. It provides oversight on matters related to the Bank's credit commitments and risk management.
- **Nomination, Compensation, HR & Governance Committee (NCHRG):** In addition to acting as the 'pay committee' of the Bank, the four-member NCHRG Committee is focused on the Bank's human resources and training policies; the Board's composition and diversity; the selection and succession of Directors and Senior Management; and overseeing various corporate governance matters.

Please refer to the **CORPORATE GOVERNANCE SECTION OF THE ANNUAL REPORT** to read more about:

- ▶ Remit of each Board Committee
- ▶ Composition of the Board
- ▶ Remuneration policies
- ▶ Agenda items discussed by the Board and its Committees during 2020
- ▶ Controlling shareholders
- ▶ Directors' election and/or appointment
- ▶ External auditor's fees
- ▶ Related party transactions

Aside from the Chairman and CEO, each Board member serves on at least one standing Committee. The Board, and its standing Committees, provide the Bank with forward-looking direction related to its fundamental business and financial performance, governance, risk management, business strategy, succession planning and human resources.

ADCB has policies in place to ensure that the Directors work in the best interest of the Bank, including Directors Conflict of Interest Policy, Directors Code of Conduct, Related Party Transactions Policy, and Directors Share Dealing Policy. Moreover, we have adopted industry best practices by having an independent Chairman and a Board in which a majority of the Directors are considered to be independent, as per the Central Bank of the UAE and Securities & Commodities Authority (SCA) Corporate Governance Codes. The Board's NCHRG Committee is responsible for continuous assessment of the independence of Independent Directors. All shareholder rights are protected by local laws and regulations.

SUSTAINABLE CREDIT POLICY

ADCB has a Risk Management Framework that supports responsible financing-decisions, with due consideration to relevant environmental issues. We are guided by the Equator Principles in our approach.

Our lending processes reflect our commitment to conducting business in a responsible manner. At the due diligence and credit approval stages, we include consideration of any adverse factors in financing

activities that may affect the environment or the community prior to making a commitment. This ensures that proposals we support do not end up harming the environment or communities where we operate.

ADCB considers the nature of our current lending practices to be of low risk, as our exposure to sensitive sectors is very low. We do not engage in deforestation activities, and our lending portfolio allocates less than 1% towards the Mining and Oil & Gas sectors. The Bank supports renewable energy and water projects within the UAE.

ANTI-BRIBERY AND CORRUPTION

ADCB is committed to maintaining the highest standard of professional and ethical principles, and integrating them into all our operations to ensure that they are free from corruption. Our Code of Conduct describes the standards of behaviour expected from all employees of ADCB and our subsidiaries.

All employees must acknowledge the Code of Conduct every year to ensure they carry out their work in line with our stated standards. The Code of Conduct, which is available on our website, details the Bank's policies related to workplace behaviour, anti-bribery and corruption, anti-money laundering, and whistle-blowing. In addition to our Code of Conduct, we have a separate Anti-Bribery and Corruption Policy that further strengthens the Bank's overall commitment to ethical business practices.

Anti-Bribery and Corruption	2018	2019	2020
% operations assessed for corruption risk	100%	100%	100%
Whistle-blowing Function	2018	2019	2020
Total incidents of whistle-blowing	23	15	18
Total incidents of whistle-blowing reported to the Board that required further investigation	8	4	7
Total incidents of whistle-blowing deemed substantial	0	0	0

We do not tolerate any breaches of the Code of Conduct, incidences of fraud, or corrupt practices perpetrated by our staff. We encourage our employees to report any such incident through the Bank's established policies and procedures. Our whistle-blowing function allows our employees to raise such concerns without fear of reprisal and in a confidential manner.

DATA SECURITY AND PRIVACY

Data security and privacy are of vital importance to ADCB, and we have a robust framework in place to ensure the highest standards of protection. We believe this is a key component to building lasting relationships with our customers. Data security concerns the protection of customers' personal information. Data privacy, on the other hand, is focused on the compliance of data protection regulations and the ethical handling of customers' personal data.

We have a dedicated department that handles data security, ensuring appropriate and sufficient safeguards and security controls are always in place. Annual audits are conducted by internal and external parties, who evaluate the adequacy of the security controls. The control environment is regularly tested by independent third-party vendors to identify any security gaps and areas where the security posture can be enhanced. Our security programme is accredited to international best practice standards, including ISO 27001 and PCI DSS (Payment Card Industry Data Security Standard).

Continuous awareness on how to protect customer information is imparted to all employees through mandatory e-learning, our staff induction onboarding programme, classroom training for specific departments, email communications, and other awareness-raising campaigns. As a final line of defence, we have secured adequate coverage from international insurance providers to protect our customer information within ADCB and third-party partners.

To further reinforce the importance of data privacy within ADCB, both from a regulatory perspective and in relation to customer expectations, we established a dedicated Data Privacy Office in 2019. The Data Privacy Office is responsible for making sure that ADCB is well-positioned for any existing and upcoming local or international legislation or regulatory requirements, and closely monitoring international best-practice. In line with international and local data protection regulations, including Global Data Protection Regulations (GDPR), we appointed a Data Protection Officer (DPO) in 2020, whose role is to ensure compliance with data protection rules while processing the personal data of customers, staff and other individuals.

For more information on our Data Management Framework, please refer to the Risk Management section of the Annual Report.

ACCESSIBLE BANKING

Digitisation remains a cornerstone of our corporate strategy and key driver in our commitment to bring banking to consumers. We are fully committed to ensuring that our services are accessible and inclusive. We have continued to invest in exploring and growing our digital capacity and capabilities, focusing on customer acquisition, engagement and experience, building on the success of ADCB's digital platforms.

ACCESS TO DIGITAL PRODUCTS

Digitisation drives our design process, focusing on consumer protection and ease of use to build a high-quality customer experience that supports customers in achieving their financial ambitions.

Hayyak, our mobile banking and onboarding app, is the top-rated of all the UAE banking applications on the Apple Store and Google Play Store. Within the Consumer Banking Group, there was significant growth in the use of digital platforms in 2020, with retail customer registrations through digital channels increasing by 19%, digital transactions rising by 14% and digital payments increasing by 28%.

During the year, clients registered for Wholesale Banking Group's market-leading digital channels, ProCash and ProTrade, increased by 16% and 64%, respectively. Meanwhile, 96% of total cash management transactions and 60% of trade finance transactions were carried out digitally.

For more information on our approach to digitisation, please refer to the Consumer Banking Group and Wholesale Banking Group sections of the Annual Report.

FINANCIAL INCLUSION AND ACCESSIBILITY

Financial inclusion is of high importance to ADCB. As such, we indiscriminately extend access to our banking services to the nation's under-served and under-banked population by delivering innovative and digital financial solutions.



- Simplylife is a sub-brand of ADCB created in 2014 for the mass market segment (salary of AED 5,000–15,000/month) to provide them with simple, fast and accessible banking
- ADCB provides eligible individuals in the low-income segment (salary under AED 5,000/month) with access to banking services when opening a current account via the Hayyak app

Due to COVID-19, we accelerated digitisation to aid entrepreneurs who did not have prior access to online banking, through our mobile-based point of sale (POS) application, Pace Pay, which is explained in the 'UAE Centricity' section of this chapter. In a span of a few months, we embraced the new normal and provided merchants with an innovative new tool to support their businesses.

Access to Digital Products	2018	2019	2020
Mobile banking subscribers	436,145	531,703	679,856
Personal internet banking subscribers (retail)	527,258	538,284	558,547

IMPROVING ACCESSIBILITY

We drive the accessibility of our products through a range of digital access points, such as:

- Hayyak mobile app, which allows all retail customers to manage accounts, apply for loans and transact remotely
- Virtual branch to provide a range of services without the need for physical interaction
- Digital and online channels for conducting day-to-day banking and trade transactions
- Cheque scanners for remote cheque processing

While our digitisation strategy drives our efforts to ensure our services are accessible to everyone, we are also mindful that there remains a demand for physical access points for our services. As such, we retain our branch and ATM network across the UAE's major urban centres, as well as in various low-density areas across Abu Dhabi and the Northern Emirates.

In addition, to improve customer experience for people of determination and the diverse population of the UAE, we have ensured:

- The height of ATMs is adjusted to ensure accessibility for wheelchair customers
- Access ramps in major branches for wheelchair customers
- Bilingual forms, posters, materials and other means of communication, such as visual monitors in branches
- Multilingual staff in all branches to assist customers in English, Arabic, Urdu and Hindi

Customer Experience	2018	2019	2020
Customer complaints	22,351	17,783	18,607
Customer complaints resolved (%)	100%	100%	100%
Customer complaints resolved within 3 working days (%)	92%	92%	92%

CUSTOMER EXPERIENCE

At ADCB, we are committed to making banking simple and safe for our customers, delivering value through our outstanding customer service, and providing world-class products and cutting-edge digital access. Our Customer Experience & Research team is responsible for reaching out to customers with surveys to capture customer feedback, while the respective business owners are accountable to adhere to SLAs (Service Level Agreements) by promptly addressing customer requests. Our Net Promoter Score² conveys improvements in Consumer Banking (from 67% to 69%) and Wholesale Banking (from 66% to 71%) in Q1'20 compared to 2019, illustrating the growth in customer loyalty and acquisition.

In 2020, we saw a slight increase in the total number of complaints raised by customers, due to the initial distress that was caused by the COVID-19 pandemic. Despite this challenging situation, we were able to resolve over 90% of the complaints within three working days.

2 The NPS scores are up to Q1'20. In Q3'20, as part of our digitisation strategy, ADCB switched to a different methodology for measuring NPS. Due to the change in methodology, NPS will not be comparable to the previous years, and the 2020 NPS score will be used as a new baseline going forward.

UAE CENTRICITY

In line with our dedication to the sustainable development of the UAE, ADCB supports a range of critical local initiatives, such as UAE Vision 2021 and Abu Dhabi Economic Vision 2030. Our contributions to engage and support local small and medium-sized businesses (SMEs), the local workforce, local procurement, and local communities culminate to fortify and progress the ambitions of the nation.



PROGRAMME	DESCRIPTION
ADCB BUSINESS CHOICE	Our dedicated Business Choice Accounts (BCA) Division caters to the needs of new start-ups and companies with a turnover of less than AED 5 million. It serves both UAE Nationals and expatriates, with nearly 55% of the customers base comprising young UAE Nationals.
ADCB PACE PAY	In September 2020, ADCB launched the UAE's first virtual point of sale (POS) payment terminal, in partnership with Visa, the world's leader in digital payments. ADCB Pace Pay is an innovative app specially designed to equip small and micro-businesses with a digital payment infrastructure at zero cost per transaction and without the need for any additional devices.
HUB71	Hub71 is an initiative founded by the Abu Dhabi Global Market (ADGM) to support start-ups in the technology sector. ADCB supports this initiative by helping these early-stage companies while exploring new ways to improve the Bank's capabilities and drive meaningful innovation, based on customers' needs and expectations.
GHADAN 21: CREDIT GUARANTEE SCHEME, DEPARTMENT OF FINANCE (DOF)	Partnering with the Department of Finance, we implemented the Credit Guarantee Scheme, which is a part of the Ghadan 21 Initiative of the Abu Dhabi Government's AED 50 billion TESS (Targeted Economic Support Scheme) stimulus plan. Under the scheme, the government will offer a credit guarantee of up to 80%, supporting businesses' resilience to withstand market fluctuations. The scheme covers SMEs for their working capital, operational expenses, trade, receivable financing, restructuring of existing debt, and capital expenditure requirements.
ADCB SMARTSTART BUSINESS ACCOUNT	This initiative offers a customised AED current account for small and micro-businesses that intend to conduct business in the UAE and engage in financial transactions within the UAE.

SUPPORTING LOCAL BUSINESS

ADCB has a prominent presence in the UAE's SME sector. We work closely with various organisations to support SMEs in setting up and running their businesses, offering a wide range of banking services, including cash management, flexible working capital, and trade and capital expenditure financing. To ensure we can serve the SME segment and cater to their needs, we initiated and/or support the aforementioned programmes.

EMIRATISATION

Empowering UAE Nationals is one of ADCB's top priorities. We are dedicated to making our organisation a centre of excellence for Emiratis and achieving one of the strongest UAE nationalisation rates in the private sector. This year, as a result of our ongoing efforts, ADCB has outperformed the Emiratisation target set by the Central Bank of the UAE.

We have implemented a comprehensive career development framework for UAE Nationals that hones personal growth and skill acquisition. We offer a diverse range of customised programmes to support their technical, behavioural and leadership development needs, in order to ensure that we attract and retain top Emirati professionals whilst creating a pipeline of future talent.

ADCB recognises the advantage of gender diversity and is proud to confirm that almost 78% of its current Emirati workforce is female. Our award-winning Tamooha programme assists female UAE Nationals to develop career paths and access professional opportunities. In 2020, a total of 184 female candidates passed through the Tamooha programme.

For more information on our Emiratisation efforts, please refer to the Human Resources section of the Annual Report.

SUPPLY CHAIN

At ADCB, we seek to support local economic activity and procurement through our purchasing practices. By incorporating ESG considerations into our vendor screening process, we facilitate sustainable practices across our supply chain. The Procurement Department of ADCB has implemented an entirely paperless procure-to-pay system through which all contracts are managed. This system allows for online tendering to ensure a transparent and auditable process.

COMMUNITY ENGAGEMENT

As a major financial institution, ADCB recognises the impact it has on the community. The Bank has a long history of investing in and supporting the UAE and its people through strategic partnerships, programmes and sponsorships.

Supply Chain Management	2018	2019	2020
% spending on local suppliers	97%	92%	91%
% of suppliers screened for environmental criteria ³	91%	91%	86% ⁴

³ Environmental screening excludes landlords and government entities.

⁴ The reduced percentage reflects an increased number of manual supplier registrations in 2020 by new ADCB subsidiaries (post-merger) for one-off projects that followed a distinct process and criteria.

EDUCATION AND UAE YOUTH EMPOWERMENT

Education and innovation are key focus areas under our community programme. Providing education and increasing financial knowledge helps develop responsible business, with a particular focus on improving the employability and financial skills needed to help our communities thrive and empower the UAE's youth.

Through programmes and partnerships, we help raise financial awareness and provide additional educational opportunities for UAE Nationals. This year, we joined forces with the Human Resources Authority and Abu Dhabi Global Market to establish a comprehensive educational system, called 'The Bankers Programme', which aims to enhance the skills and knowledge amongst UAE Nationals across the UAE, and integrate them into the banking sector.

We continued our partnership with Plug and Play and Abu Dhabi Global Market, which supports technology start-ups in the region, helping us enhance our digital capabilities and explore new and innovative services for our clients.

CHARITABLE PARTNERSHIPS FOR THE UAE

ADCB has a long and established track record of partnerships with charitable organisations in the UAE, as well as facilitating the donations of our customers and supporting events that raise money for worthy causes.

Sources of Community Donations (AED)	2018	2019	2020
Direct donations and sponsorships	7,003,327	9,079,674	14,957,045
Donations (Islamic Banking Group)	1,492,138	1,824,508	2,054,167
Total direct community donations and sponsorships	8,495,465	10,904,182	17,011,212
Indirect community donations from ATMs	704,785	733,609	946,246
Indirect community donations from online banking	5,022,754	3,080,233	3,572,519
Total indirect community donations	5,727,539	3,813,842	4,518,765
Total direct and indirect community donations	14,223,004	14,718,024	21,529,977

In 2020, we continued our partnerships with the Emirates Red Crescent, the Sheikh Khalifa Bin Zayed Foundation, Emirates Nature — WWF, various people of determination centres, and the Zakat Fund, which enables charitable donations by our customers through ATM transactions and online banking channels.



In our efforts to contribute to meaningful social initiatives, we also supported several fundraising events in 2020. For example, as a part of International Breast Cancer Awareness Month, we hosted the ADCB Zayed Sports City Pink Run for the eighth year in a row, with proceeds donated to Al Jalila Foundation for Breast Cancer initiatives.

SUCCESS ENABLERS

At ADCB, our success is driven by the hard work and diligence of our employees, who unceasingly and reliably uphold the Bank's core values.

HUMAN RESOURCES

It is our highest priority to ensure that our employees perform their duties effectively and productively, supported by a healthy and engaging working environment. In 2020, amid the global pandemic, our Human Resources Group was tasked with supporting our employees to effectively navigate the new working conditions. Despite these challenging circumstances, our voluntary attrition rates in 2020 decreased compared to the previous two years.

We take pride in the skills of our people and work to expand their competencies. Through our Ambition University, we deliver a variety of learning programmes that include mandatory annual training requirements in key risk management modules, such as anti-money laundering, compliance, fraud, information technology (IT) & physical security, Code of Conduct, operational risk, and business continuity.

We foster a safe and inclusive work environment for all our employees. If an employee has any concerns, we encourage them to raise them, either directly to their managers or, if an employee is not comfortable doing this, through our formal grievance platform: Tawasul. This platform ensures that all grievances are addressed and receive appropriate follow up.

To read more about our continuous efforts to ensure the well-being, training and development, diversity, and inclusivity of our workforce, please refer to the Human Resources section of the Annual Report.

HEALTH AND SAFETY

The Bank has always sought to encourage a favourable work-life balance. We have developed and adopted a Health & Safety Policy that is supported by procedures related to first aid, emergency preparedness and hazard risks. Our policies and procedures comply with national standards and were awarded UAE Civil Defence Safety Certificates for all ADCB locations.

We have fire wardens and trained support staff across all our locations, as well as dedicated nursing services and first aid clinics across ADCB's operations. The Bank has installed Civil Defence 24x7 Smart Monitoring Systems and carries out quarterly inspections of first aid kits, along with regular maintenance of fire alarms and firefighting systems.

ENVIRONMENTAL MANAGEMENT

From proactive electricity and water-saving practices to effective waste management, ADCB is vigilant in reducing our impact on the environment and monitoring our resource consumption. Our energy efficiency efforts have directed us to install occupancy sensors and LED lights.

In compliance with Abu Dhabi Law, ADCB works with an approved environmental service provider (ESP) registered with the Abu Dhabi Waste Management Center, Tadweer, to responsibly process all waste. Mitigating our paper trail and complementing our waste management efforts with a complete recycling programme, we diverted and recycled approximately 8,129 kg of waste from landfills in 2020.

Voluntary Attrition	2018	2019	2020
Voluntary attrition rate (%)	8%	9%	5%

COVID-19 RESPONSE

The COVID-19 pandemic disrupted economies and businesses around the world. ADCB rose to the challenge, continuing to operate with resilience and dedication towards our customers, employees, partners, vendors, and the local communities where we operate.

Our pandemic response preparations began in January 2020, using prepared contingency plans. Prioritising resilience of our business functions and the safety of our staff and partners, we fostered a unified and comprehensive Crisis Management response in March 2020, which was complemented by the AED 50 billion Targeted Economic Support Scheme (TESS) launched by the Central Bank of the UAE.

We were able to sustain operations through procedural assessments that securely balanced remote working

with on-site working. Working from home was supported by the Bank's provision of computers and ensuring network connectivity for employees.

We prioritised the welfare of our people, the mitigation of our clients' financial stresses, and the empowerment of our community, to tackle the disruptions created by the pandemic.



STAKEHOLDER	COMMITMENTS AND ACTIONS
EMPLOYEES & VENDORS	- Staff members were given the means to work from home, knowledge of hygiene practices and access to subsidised PCR testing - ADCB facilities were upgraded to include sanitisation tunnels and vaccine administration capabilities - Vendor relationships were maintained by ensuring timely invoice payments
CONSUMERS	- Digital banking continued to meet the needs of consumers as some physical branches were closed - Loan deferments, reduced late-payment charges, fee refunds, and interest-free tuition expenses were introduced to alleviate the economic burdens placed on ADCB customers by COVID-19
BUSINESSES	- To lessen the impact of COVID-19 on businesses, ADCB provided additional credit availability to support liquidity objectives - From reductions of loan rates to lowered service fees, ADCB continued to cater to the changing needs of clients through reliable digital channels
COMMUNITIES	- AED 5 million committed to express gratitude and alleviate the financial burden of 35,000 healthcare workers across the UAE who bank with ADCB, by refunding a supermarket or food delivery purchase - In partnership with the Ministry of Education, ADCB donated AED 4 million to equip students with laptops for digital learning

CORPORATE GOVERNANCE

BOARD OF DIRECTORS



**H.E. Khaldoon Khalifa
Al Mubarak**

CHAIRMAN, INDEPENDENT,
NON-EXECUTIVE DIRECTOR

H.E. Khaldoon Khalifa Al Mubarak is the Managing Director & Group Chief Executive Officer of Mubadala Investment Company, responsible for aligning Mubadala with Abu Dhabi's economic diversification efforts. Beginning his career at the Abu Dhabi National Oil Company, H.E. Al Mubarak held a number of positions at Tawazun Economic Council, formerly known as UAE Offsets Group, before assuming his current portfolio of responsibilities.

Degree in Economics & Finance (Tufts University, USA)

EXTERNAL APPOINTMENTS:

- Managing Director and Group CEO — Mubadala Investment Company
- Member — Abu Dhabi Executive Council
- Chairman — Abu Dhabi Executive Affairs Authority
- Member — UAE Supreme Council for Financial and Economic Affairs
- Chairman — Emirates Nuclear Energy Corporation, Emirates Global Aluminium and City Football Group



**H.E. Hussain Jasim Naser
Al Nowais**

VICE CHAIRMAN, INDEPENDENT,
NON-EXECUTIVE DIRECTOR

Chairman of the Board Nomination, Compensation,
HR & Governance Committee

H.E. Hussain Jasim Naser Al Nowais joined the ADCB Board in 2019. He is the Founding Member and Chairman of AlNowais Investments.

BSc Business Finance (Lewis & Clark College, USA)

EXTERNAL APPOINTMENTS:

- Chairman — AMEA Power
- Board Member — Rotana Hotels and Real Estate Investment
- Founding Member — Sandoq Al Watan



Aysha Al Hallami

INDEPENDENT,
NON-EXECUTIVE DIRECTOR

Chairlady of the Board Audit & Compliance Committee

Aysha Al Hallami was elected by ADIC to join the ADCB Board of Directors in April 2013. She is a Research Specialist in the Strategy and Planning Department at Abu Dhabi Investment Authority.

Chartered Financial Analyst (CFA Institute, USA)

Private Equity and Venture Capital (Harvard Business School, USA)

MSc Finance & Banking (Cass Business School, City University, UK)

BSc Business Sciences, Finance (Zayed University, UAE)



**Saeed Mohamed Hamad
Almazrouei**

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Chairman of the Board Risk & Executive Committee

Saeed Mohamed Hamad Almazrouei was appointed to the ADCB Board of Directors in 2019. He is the Group Deputy Chief Financial Officer and Head of Mergers and Acquisitions in Mubadala Investment Company.

MSc International Securities Investment and Banking (University of Reading, UK)

MSc National Security and Strategic Studies (National Defense College, UAE)

BSc Finance (Suffolk University, USA)

EXTERNAL APPOINTMENTS:

- Board Member — Borealis
- Board Member — Musanada — Abu Dhabi General Services Company
- Board Member — Cleveland Clinic Abu Dhabi
- Board Member — Masdar
- Board Member — Abu Dhabi Retirement Pension & Benefits Fund
- Board Member — CEPSA - Compañía Española de Petróleos S.A.
- Board Member — Modon Properties
- Board Member — Mubadala Healthcare Company

BOARD OF DIRECTORS

(CONTINUED)



Carlos Obeid

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Carlos Obeid joined the ADCB Board of Directors in 2019. He is the Group Chief Financial Officer of Mubadala Investment Company.

Master's Degree in Business Administration (INSEAD)

Bachelor's Degree in Electrical Engineering (American University of Beirut, Lebanon)

EXTERNAL APPOINTMENTS:

- Board Member — Cleveland Clinic Abu Dhabi
- Board Member — GlobalFoundries
- Board Member — Waha Capital PJSC
- Chairman — Mubadala Infrastructure Partners Limited
- Board Member — Bank AUDI Lebanon SAL



Khalid Deemas Alsuwaidi

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Khalid Deemas Alsuwaidi was appointed by ADIC to join the ADCB Board of Directors in March 2009. In 2012, he was nominated and elected by ADCB shareholders to act as a Director and, in March 2015, he was again nominated and elected by ADIC to act as a Director. He has more than 15 years of banking experience, having held senior management positions in National Bank of Abu Dhabi and First Gulf Bank.

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

BSc Computer Information Systems (Bethune Cookman College, USA)

EXTERNAL APPOINTMENTS:

- Board Member — Manazel Real Estate Company
- Vice Chairman — Abu Dhabi National Takaful Company
- Group Chief Executive Officer — Das Holding



Ahmed Saeed Al Calily

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Ahmed Saeed Al Calily is the Chief Strategy & Risk Officer (CSRO) at Mubadala Investment Company, responsible for the company's corporate strategy and risk framework. Ahmed's diverse professional experience includes several leadership positions as well as Board positions on various companies.

Bachelor's Degree in Economics and Political Science (Boston University, USA)

EXTERNAL APPOINTMENTS:

- Board Member — Medical Holding Company
- Board Member — Cleveland Clinic Abu Dhabi
- Board Member — Masdar
- Board Member — GlobalFoundries



Abdulla Khalil Almutawa

NON-EXECUTIVE DIRECTOR

The Bank's shareholders nominated Abdulla Khalil Almutawa to join the ADCB Board of Directors in March 1997. He is a skilled and dedicated investment professional with more than 35 years of experience and a comprehensive background in finance and administration.

BSc Business Administration (University of North Carolina, USA)

EXTERNAL APPOINTMENTS:

- General Manager — the Private Office of Sheikh Suroor bin Mohammed Al Nahyan
- Board Member — Bank Al Falah Pakistan
- Chairman — Makhazen Investment Company
- Board Member — Abu Dhabi National Hotels

BOARD OF DIRECTORS

(CONTINUED)



Mohamed Ali Aldhaheeri

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Mohamed Ali Aldhaheeri has a comprehensive background in the financial sector with more than 22 years of experience. He served in various senior roles within financial institutions, and currently holds the position of the Deputy CEO & Executive Director of the Accounting & Financial Services Department at Abu Dhabi Investment Council.

EXTERNAL APPOINTMENTS:

— Chairman — InvestAD



Khaled H. Alkhoori

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Khaled H. Alkhoori was elected by ADCB shareholders to join the Bank's Board of Directors in April 2012. Since January 2006, he has been the Chairman of Orient House for Development and Construction.

MSc Civil Engineering (Northeastern University, USA)

BSc Civil Engineering (Northeastern University, USA)

EXTERNAL APPOINTMENTS:

— Chairman — Orient House for Development & Construction
— Board Member — Abu Dhabi National Hotels

“

A decade ago, we emerged from the global economic crisis fitter and stronger, and with a renewed focus on implementing best practice governance.”

EXECUTIVE MANAGEMENT



Ala'a Eraiqat

GROUP CHIEF EXECUTIVE OFFICER
BOARD MEMBER

Ala'a Eraiqat joined ADCB in January 2004 and held various senior posts before taking over as Group Chief Executive Officer and becoming a member of ADCB's Board of Directors in February 2009. He has been a banker since 1991 and previously held senior positions at Citibank and Standard Chartered Bank, among others. His responsibilities extend to being the Chairman of the Board of Directors of Al Hilal Bank and chairing the following subsidiaries and committees of ADCB, among others: Abu Dhabi Commercial Properties (ADCP), Abu Dhabi Commercial Engineering Services (ADCE), the ADCB Management Executive Committee, and the ADCB Management Risk & Credit Committee.

EXTERNAL APPOINTMENTS:

— Board Member — Abu Dhabi National Hotels PJSC (ADNH)



Deepak Khullar

GROUP CHIEF FINANCIAL OFFICER

Deepak Khullar was appointed ADCB's Group Chief Financial Officer in 2008. In this role, Deepak oversees the Group Finance function (Financial Planning, Business Performance, Governance & Reporting), including Investor Relations, Taxation, Economics, Group Strategy, Strategic Sourcing and Procurement. He previously spent 15 years with Standard Chartered Bank in the Middle East and in Korea in a variety of senior positions. Prior to that, he worked with Ernst & Young and Price Waterhouse & Co. (now PricewaterhouseCoopers) in their assurance, advisory and technical services and training practices in the Middle East and India. He is an alumnus of the University of Delhi, an Associate of the Institute of Chartered Accountants of India, and an Associate Member of the Association of Corporate Treasurers (UK).

Deepak was appointed as a Board Director at Al Hilal Bank in 2019.



Arup Mukhopadhyay

GROUP HEAD OF CONSUMER BANKING

Arup Mukhopadhyay joined ADCB in 2005 and is Head of the Consumer Banking Group. He previously spent seven years with Citibank, becoming Head of Wealth Management products and Marketing Director for its UAE Consumer Business. Before that, he worked with Unilever in India in several sales and marketing roles. Arup is a mechanical engineering graduate and holds an MBA from the Indian Institute of Management, Lucknow.

Arup was appointed as a Board Director at Al Hilal Bank in 2019.



Ludovic Nobili

GROUP HEAD OF WHOLESALE BANKING

Ludovic Nobili was appointed as Group Head of Wholesale Banking at ADCB in March 2020. Prior to that, he managed the Investment Banking activity for the Group. Ludovic was instrumental in establishing ADCB's Investment Banking franchise in the region by leading a number of high-profile transactions. In his current role, Ludovic is responsible for the growth and performance of Cash Management, Trade Finance, SME Finance, Corporate Finance and Investment Banking across the Group. He joined ADCB in 2008 from Citigroup in London, where he focused on Corporate Securitisation. He is a senior investment banker with 20 years' experience, a French citizen and an alumnus of Université Paris-Sorbonne.

EXECUTIVE MANAGEMENT

(CONTINUED)



Kevin Taylor
GROUP TREASURER

Kevin Taylor joined ADCB in 2009 as Head of the Treasury & Investments Group. He has held significant treasury and risk positions in global organisations such as ALICO, Citigroup, Westpac Bank and Merrill Lynch. At ADCB, he is responsible for FX trading and sales, derivative trading and sales, fixed income and investments personnel and the balance sheet analytics teams. Kevin has more than 30 years of global experience in banking and finance, and is a member of the UAE Banks Federation Financial Markets Committee. He holds an MBA from Macquarie University in Australia and a Master of Science in Risk Management from the Stern School of Business, New York University.

Kevin was appointed as a Board Director at Al Hilal Bank in 2019.



Mohammed Al Jaryash
GROUP CHIEF OPERATIONS OFFICER

Mohammed Al Jaryash was appointed as ADCB's Acting Group Chief Operations Officer in 2019 and was confirmed in 2020. He has held senior operational management positions at ADCB, including Group Chief Service Officer and Branch Operations Manager. He holds Board seats with several ADCB subsidiary companies, and is the Chairman of ITMAM Services and Vice-Chairman of Abu Dhabi Commercial Engineering Services and Abu Dhabi Commercial Properties. He is the Chairman of Emirates Digital Wallet and a Board Member of Al Hilal Bank. A leader with over 15 years' experience in improving customer experience, ensuring regulatory compliance and delivering capabilities for growth, he has deep experience in banking operations, customer journey and experience, and digital channels. Mohammed holds a Bachelor's Degree in Business Administration from Al Ghurair University in the UAE, a Post Graduate Certificate in Management at Ashridge Executive Education HULT in the UK, and a Diploma in Banking from the Emirates Institute for Banking and Financial Studies.



Paul Keating
GROUP CHIEF RISK OFFICER

Paul Keating was appointed as ADCB's Group Chief Risk Officer in 2018. He previously worked for the Australia and New Zealand Banking (ANZ) Group for over 30 years, where he served in various capacities across the world. Paul's previous role at ANZ was the Chief Risk Officer and Head of Credit for the Pacific Division, which included 11 countries. Paul is responsible for Compliance, Operational Risk, Market Risk, Fraud Risk, Data Management, Credit Policy, and Information Security. He sits on various Management and Board sub-committees to provide an enterprise-wide risk management perspective, and serves as a Director of two ADCB subsidiaries. Paul holds a Bachelor of Commerce and Administration from Victoria University in New Zealand and a Post Graduate Diploma in Banking Management. He has also completed the Australian Institute of Company Directors course.



Tilak Silva
GROUP CHIEF CREDIT OFFICER

Tilak Silva was appointed as the Group Chief Credit Officer in 2018, having been the Acting Group Chief Risk Officer since 2017. He has been with ADCB for 40 years, focusing on credit underwriting, remedial risk and restructuring. He has an in-depth understanding of the functioning of all areas of the Bank. Prior to joining ADCB, Tilak worked with Hatton National Bank in Sri Lanka, undertaking different roles within the Credit Group.

EXECUTIVE MANAGEMENT

(CONTINUED)



Simon Copleston

GROUP GENERAL COUNSEL AND BOARD SECRETARY

Simon Copleston has been ADCB's Group General Counsel and Board Secretary since 2008. After graduating from Durham University in the UK, he practiced corporate law in the City of London for eight years. He joined Abu Dhabi Investment Authority in 2006, acting as a lawyer to the Emerging Markets Department and the Strategic Investment and Infrastructure teams. He has more than 20 years of experience in banking, finance and corporate law. Simon is a UK-qualified solicitor and has been instrumental in helping ADCB to become an acknowledged regional leader in corporate governance.



Ali Darwish

GROUP HEAD OF HUMAN RESOURCES

Ali Darwish joined ADCB in 2010 and leads the Human Resources Group. He has a wealth of experience in the banking industry that extends for more than 20 years working for leading financial institutions in the UAE. At ADCB, he ensures the Bank is building a competitive advantage through people by focusing on strategic talent management, Emiratisation and employee engagement. Furthermore, he is responsible for driving the Bank's high-performance and agile culture through its talent.



Abdirizak Mohamed

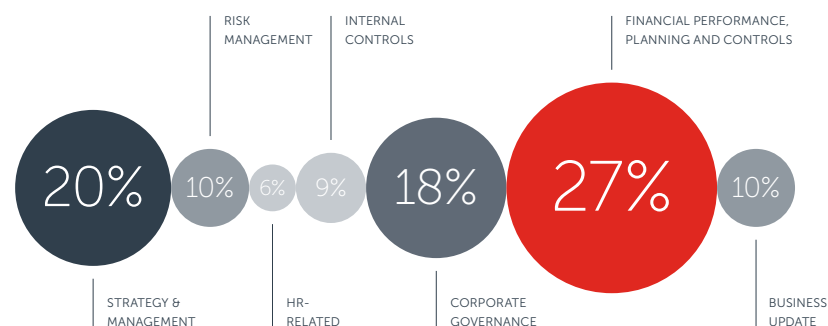
GROUP CHIEF INTERNAL AUDITOR

Abdirizak Mohamed has been ADCB's Group Chief Internal Auditor since 2006, responsible for covering the Bank and all of its subsidiaries, having previously worked at the NASDAQ Stock Market, NASD (FINRA) and OFHEO (FHFA). He has more than 25 years of financial industry experience that spans capital markets management, accounting policy/applications, examinations and auditing, risk management, regulatory oversight, and corporate governance. He is the former Chairman and a current member of the UAE Banking Federation Audit Committee, and over the years he has served as an independent Audit Committee Member of various Abu Dhabi-based companies. Abdirizak is a Certified Public Accountant and holds a Master's Degree from the George Washington University in Washington, DC and a Bachelor's Degree from the University of Washington in Seattle, WA.

CORPORATE GOVERNANCE REPORT

We maintain a world-class corporate governance framework that protects our customers, our shareholders, and the reputation of ADCB. Strong governance underpins our integrity and promotes economic growth by reinforcing the trust and confidence our investors place in us.

ADCB has a strong, well-established and world-class corporate governance framework. The framework is regularly reviewed and adjusted to reflect changes in ADCB's businesses, regulation and the external environment. Our disciplined approach to governance at every level demonstrates our integrity and promotes greater transparency. It protects our reputation and supports our long-term success by attracting investors, customers, employees and other stakeholders.



TIME ALLOCATION FOR 2020 BOARD MEETINGS

CORPORATE GOVERNANCE FRAMEWORK

THE BOARD: MEMBERSHIP, COMMITTEES AND MEETINGS

The Board, which consists of 11 members, met nine (9) times in 2020. In addition, Directors received information between meetings about the activities of Board and Management Committees and developments in the Group's business.

Members of Senior Management were invited to all these meetings to enhance the Board's engagement with management and deepen their understanding of the business.

At the start of 2020, the Board had three standing Committees: Audit & Compliance (BACC); Risk & Executive (previously Risk & Credit) (BREC); and Nomination, Compensation, HR & Governance (NCHRG).

Each member of the Board, with the exception of H.E. Khaldoon Khalifa Al Mubarak (Chairman), and Ala'a Eraiqat (CEO), serves on at least one (1) standing Committee.

The Committees met a total of 40 times in 2020. Chairmanships and memberships of the Board Committees are reviewed to ensure suitability. Membership is rotated as needed.

DIRECTORS' INDEPENDENCE AND MANAGEMENT REPORTING

Independence is an important factor in our ability to serve in the best interest of ADCB and all its stakeholders. Majority of ADCB's non-executive Directors are considered independent, in accordance with applicable corporate governance regulations.

On the management side, the Group Chief Internal Auditor reports to the BACC, and the Board Secretary reports to the Board. The Group Chief Risk Officer has direct access to the BREC and the Group Chief Compliance Officer has direct access to the BACC.

THE BOARD'S AGENDA IN 2020

The Board regularly discusses items that are fundamental to the direction of ADCB, including business performance, long-term planning, strategy, risk appetite and management, succession planning, and human resources. Details of the agenda items discussed by the Board and its Committees during 2020 are set out on pages 128–130.

Board and Board Committee Agenda Items

AREA	Q1 2020	Q2 2020	Q3 2020	Q4 2020
GOVERNANCE	2020 Annual General Assembly (AGA) agenda - Annual Shari'ah report - Reports from Committee Chairmen, Committee minutes and other reports - Board expenses summary for the year 2019 - Board composition (review of independence and mix of skills) - Proposed Board trainings for year 2020 - Board remuneration review for 2019 - CB governance regulations – action plan - Annual culture and values assessment - Board Evaluation Results - ADCB Annual Report 2019 - Conflict of interest and related parties report - Directors' shareholdings - UAE CB notice on re-dormant accounts regulation	- Reports from Committee Chairmen, Committee minutes and other reports - CB governance regulations – action plan - Conflict of interest and related parties report - Board Risk & Executive Committee Terms of Reference - Director Selection Policy - Nomination, Compensation, HR and Governance Committee Terms of Reference - CB UAE Notice No. 1766/2020 re Effective Date of the remaining BASEL III Capital standards - Corporate Information security policy - Duties and responsibilities of the Board Secretary - Performance evaluation and remuneration policy for the Group CEO - Directors' shareholdings - Asset management compliance policy - External Auditor Selection policy - Board terms of reference - Actions arising from Board Evaluation	- Reports from Committee Chairmen, Committee minutes and other reports - Conflict of interest and related parties report - Audit and Compliance Committee Terms of Reference - UAE CB Major Acquisitions regulations - UAE CB transfer of significant shareholding 2019 board evaluation - Directors code of conduct - Directors share dealing policy - Directors conflict of interest policy - Directors Access to independent professional advice policy - Directors performance evaluation policy - MEC Terms of Reference - Procurement Policy	- Reports from Committee Chairmen, Committee minutes and other reports - Conflict of interest and related parties report - UAE CB Notice No. 4240/2020 the Higher Shari'ah Authority Resolution No.69/2/2020 2020 Annual Report update - Annual review of Asset Liability Management policy 2020 Board evaluation 2021 AGA agenda - Directors' shareholdings - Reports from the chairmen of each committee for 2020 - Schedules and agendas for the Board and for each Committee for the year 2021 - Related party transaction policy - SCA Corporate Governance Regulations
FINANCIAL PERFORMANCE, PLANNING AND CONTROLS	- Group Chief Financial Officer's update 2019 financial results, including performance by business group - Ernst & Young presentation	- Group Chief Financial Officer's update - Q1 financial results, including performance by business group - Ernst & Young presentation	- Group Chief Financial Officer's update - Q2 financial results, including performance by business group - Revised forecast 2020 - Ernst & Young presentation	- Group Chief Financial Officer's update - Q3 financial results, including performance by business group - Ernst & Young presentation - Financial Instruments measured at fair value
BUSINESS UPDATES	- Group Chief Executive Officer's update - Itmam services update - Merger/integration update - Sale of India branches - Integration consultant fees	Group Chief Executive Officer's update	- Group Chief Executive Officer's update - Consumer Banking update - Digitisation update - Transfer of Al Wifaq Finance Company PJSC finance book to ADCB - ADCB Egypt assets selling proposal	- Group Chief Executive Officer's update 2020 funding plan and Treasury update - Orient Takaful sale

Board and Board Committee Agenda Items (continued)

AREA	Q1 2020	Q2 2020	Q3 2020	Q4 2020
NOMINATION	- Update on induction for new Directors - Board elections at the 2020 AGA - Board Committee composition review - Election of Chairman and Vice Chairman	Review of the policy for selection and appointment of Directors		Nominations at 2021 AGA
HR	2019 variable pay review - Group Chief Executive Officer evaluation and KPIs for 2020 - Update on LTIP purchases and vested/unvested shares - Emerging UAEN Talent	- Independent review of remuneration scheme design - Update on LTIP Purchases and vested/unvested shares	- Incentive plans risk review - Compensation plans - Public reporting on remuneration - HR Key initiatives - Vesting of deferred variable pay - Long-term incentive plan (LTIP) and vested/unvested shares - Succession planning update - Evaluation of effectiveness of the variable pay structure - Annual Report on commission incentive schemes	- Annual HR update - Reward update and governance process - Remuneration strategy - Update on LTIP purchases and vested/unvested shares - Leave balance encashment 5-year strategy linked variable pay and KPI scorecards
AUDIT AND INTERNAL CONTROLS	- Group Chief Internal Auditor's report - Internal Audit updates (including financial budget, staff strength, training plan) - Audit Statutory fees 2020 - Internal Audit Annual Report - Financial statements for 2019 - IFRS 9 governance process 2019 Internal Audit quality assurance assessment - External auditor selection for year 2020 - External Audit tender process - Group Head/IAD's performance review - ADAA 2019 examination report - Internal Audit Strategy 2018–2020 - Whistle Blower Update – 2019	- Group Chief Internal Auditor's report - Internal Audit updates - Audit Plan progress for year 2020 - Financial statements for Q1 2020 - IFRS 9 governance process - MLRO Report 2019 - Approval request to engage Ernst & Young for tax advisory services - Audit Fees Luxembourg Funds	- Group Chief Internal Auditor's report - Internal Audit updates - Deloitte report - Internal audit semi-annual report - Appointment of statutory auditors – ADCB India - MLRO report - Financial statements for Q2 2020 - IFRS 9 governance process	- Group Chief Internal Auditor's report - Internal Audit updates - Ernst & Young report and external audit plan - IFRS 9 governance process - Financial statements for Q3 2020 - Internal Audit budget for 2021 - Central Bank examination report

Board and Board Committee Agenda Items (continued)

AREA	Q1 2020	Q2 2020	Q3 2020	Q4 2020
RISK AND COMPLIANCE	- Group Chief Risk Officer's report - Risk update (including risk appetite statement) - Annual review of asset and liability policy - Retail portfolio and policy update - Insurance coverage update - Group Compliance update - Chief Economist's update - Real estate portfolio update - Financial institutions portfolio and country risk update - Group Chief Credit Officer's update - Market risk update	- Group Chief Risk Officer's report - NMC update - Credit Delegations - Liquidity trackers for ADCB's Consumer Banking, Wholesale Banking, and Treasury groups - Dubai & Hospitality/real estate update - ICAAP and stress testing results	- Chief Risk Officer's report - Risk update (including risk appetite statement) - NMC update - Internal audit review of NMC - Credit portfolio review and 5-year business plan - New financing update - Non-core asset sales - Investigations update - KYC and AML CFT policy - Economic sector limits - Liquidity stress testing - Accounts update - Review of depositor concentration limit - Group Compliance update	- Group Chief Risk Officer's report - Arabtec update - Data management function update - Contracting segment review - Forbearance of loans for UAE Nationals - Sberbank roundtable discussion - Retail portfolio and policy update - Insurance coverage ratio - Market risk liquidity and policy update - NMC update - UAE CB Thematic review – sanction screening - Group Compliance policy - Risk appetite statement - Whistle-blowing policy - Personal trading policy
STRATEGIC ITEMS	- Strategy update - Overseas strategy (Egypt and Kazakhstan) - Competitor analysis – financial and strategic	Strategy update	- Strategy & Portfolio update - Digital Strategy 2020 strategy session - Three-year capital plan	- Strategy update 2021 budget - Competitor analysis – financial and strategic

PERFORMANCE EVALUATION

A performance evaluation of the Board, Board Committees and individual Directors is conducted on an annual basis, with a view to constructively identify areas of success and achievement, as well as areas, which may require improvement. In addition, an external consultant is appointed to independently evaluate the performance of the Board, Board Committees and individual Directors at least once every three (3) years.

When a Board performance evaluation exercise is conducted, the most relevant comments from the evaluation are presented to the Board, in the form of an action list, and its implementation is monitored by the NCHRG.

As per ADCB's Directors' Performance Evaluation Policy, an external consultant was supposed to be appointed to independently evaluate the performance of the Board, Board Committees and individual Directors for the year 2020. However, as decided by the NCHRG and taking into consideration that in March 2020, a number of Board membership changes took place. The Board decided that a performance evaluation of the Board, Board Committees and individual Directors would be conducted internally for the year 2020, instead of using an external consultant.

In 2020, the Board continued to ensure that its members received professional development in several areas, including credit, operational, and market risk, liquidity coverage ratio, Basel III and IFRS 9.

BOARD REMUNERATION

Directors' remuneration is set annually by the Board following delegation from ADCB's shareholders. Any proposals for changes are considered by the NCHRG prior to obtaining Board and, if necessary, shareholders approvals.

According to applicable laws and ADCB's articles of association, Directors may not receive any remuneration in years when ADCB does not achieve net profits.

As at 31 December 2020, ADCB's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from ADCB. ADCB's Group Chief Executive Officer has waived his right to receive Director's fees. He receives variable pay as a member of Senior Management of ADCB, not as a Director.

ADCB DIRECTORS' SHAREHOLDINGS

SR. NO	MEMBERS	AS AT 31 DEC 2019	AS AT 31 DEC 2020	CHANGE IN SHAREHOLDING
1	H.E. KHALDOON AL MUBARAK*	N/A	440,854	N/A
2	H.E. HUSSAIN AL NOWAIS*	0	0	0
3	ALA'A ERAIQAT	2,841,555	2,841,555	0
4	AYSHA AL HALLAMI	0	0	0
5	ABDULLA ALMUTAWA	0	0	0
6	KHALED ALKHOORI	1,360,000	1,460,000	7.35%
7	KHALID ALSUWAIDI	14,915	14,915	0
8	CARLOS OBEID	N/A	0	0
9	SAEED ALMAZROUEI	0	0	0
10	MOHAMMED AL DHAHERI	N/A	0	0
11	AHMED SAEED AL CALILY*	N/A	0	0
12	EISSA ALSUWAIDI**	0	N/A	N/A
13	MOHAMED DHAEN ALHAML**	0	N/A	N/A
14	MOHAMED ALMEHAIRI**	0	N/A	N/A

* Board members appointed in 2020 AGA in 18.3.2020

** Board members whose membership ended in 18.3.2020

THE FOLLOWING TABLE SHOWS THE AMOUNTS PAID TO THE DIRECTORS FOR THEIR SERVICE ON THE BOARD AND ITS COMMITTEES IN 2020

MEMBERS	STATUS	YEAR OF APPOINTMENT	EXPIRATION OF TERM OF OFFICE	BOARD MEMBER REMUNERATION (paid in 2021 for the year 2020)		
				CHAIRMAN/ MEMBER	SESSIONS ATTENDED	AMOUNT (AED MN)
H.E. KHALDOON AL MUBARAK ¹	Chairman	2020	2023	C	7	2.03
EISSA ALSUWAIDI ²	Non-Executive Director	2008	2020	Previous C	1	0.507
MOHAMED DHAEN ALHAML ²	Non-Executive Director	2019	2020	Previous VC	1	0.440
ALA'A ERAIQAT	Executive Director	2009	2022	M	9	NONE
AYSHA AL HALLAMI	Non-Executive Director	2013	2022	M	9	1.62
ABDULLA ALMUTAWA	Non-Executive Director	1997	2022	M	9	1.62
KHALED ALKHOORI	Non-Executive Director	2012	2022	M	9	1.62
KHALID ALSUWAIDI	Non-Executive Director	2009	2022	M	9	1.35
CARLOS OBEID	Non-Executive Director	2019	2022	M	9	1.62
H.E. HUSSAIN AL NOWAIS	Non-Executive Director	2019	2022	M	7	1.76
SAEED ALMAZROUEI	Non-Executive Director	2019	2022	M	9	1.69
MOHAMED ALMEHAIRI ²	Non-Executive Director	2019	2020	M	1	0.3375
MOHAMED ALDHAHERI ¹	Non-Executive Director	2020	2022	M	7	1.35
AHMED AL CALILY ¹	Non-Executive Director	2020	2022	M	8	1.35
TOTAL						17.2945

BREC		BRCC		BACC		NCHRG		TOTAL (AED)
SESSIONS ATTENDED	AMOUNT (AED)	SESSIONS ATTENDED	AMOUNT (AED)	SESSIONS ATTENDED	AMOUNT (AED)	SESSIONS ATTENDED	AMOUNT (AED)	
		6	30,000			2	8,000	38,000
						2	10,000	10,000
18	72,000	5	20,000	10	75,000			167,000
18	72,000	1	4,000	2	12,000			88,000
18	72,000	6	24,000					96,000
				10	60,000			60,000
18	72,000	6	24,000	3	18,000	4	16,000	130,000
						3	15,000	15,000
17	85,000	3	12,000			6	24,000	121,000
		1	4,000			2	8,000	12,000
				7	42,000			42,000
3	12,000			7	42,000	3	12,000	66,000
385,000		118,000		249,000		93,000		18,139,500

¹ Directors appointed at the AGA 2020.

² Directors who resigned from office effective 18 March 2020.

APPOINTMENT, RETIREMENT AND RE-ELECTION

ADCB recognises that an effective board is crucial to the success of its business.

According to ADCB's articles of association, all Directors are required to seek re-election by shareholders every three years. In the event that a vacancy arises, Directors are permitted to elect any individual nominated to fill the vacancy, but any Director so appointed must seek election by the shareholders at the next annual general meetings. The Abu Dhabi Investment Council has the right to elect a percentage of the Board that is proportionate to its holdings of ADCB's share capital. However, the Shareholder Circular (in respect of the merger of Abu Dhabi Commercial Bank PJSC and Union National Bank PJSC by way of a merger pursuant to Article 283(1) of the UAE Federal Law No. 2 of 2015 Concerning Commercial Companies), provided for the appointment of members of the Board, upon the conclusion of the merger, for a term of three years ending in 2022.

Any candidate for appointment as a Director must be pre-approved by the UAE Central Bank.

As of year-end 2020, the Abu Dhabi Investment Council held 60.2% of ADCB's issued share capital and, consequently, had the right to elect six Directors and to vote a further 0.2% of ADCB's capital at the Board elections.

BOARD OVERSIGHT OF RISK MANAGEMENT

Risk management is a crucial part of ADCB's corporate governance framework. Responsibility for setting ADCB's risk appetite and for the effective management of risk rests with the Board. Acting within authority delegated by the Board, the BREC has overall responsibility for oversight and review of all risk types.

The BREC also guides management on risk appetite across sectors, geographies and customer types. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board.

The BREC's responsibility also includes reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, reviewing the outcome of stress tests and ADCB's stress-testing methodology and ensuring that ADCB's risk governance is supportive of prudent risk-taking at all levels in ADCB.

During 2020, the BREC also sought assurance from Senior Management that the UAE Central Bank's regulations had been suitably addressed and reported accordingly to the Board.

The Board and management also foster a culture of compliance. They have created an environment where employees at all levels are empowered to confront improper behaviour, raise grievances and suggest better ways to pursue the Group's strategic goals.

BOARD OVERSIGHT OF FINANCIAL REPORTING, COMPLIANCE AND INTERNAL CONTROLS

Oversight of financial reporting and integrity of ADCB's financial disclosures are also key roles performed by your Board. In 2020, the BACC assessed the objectivity and effectiveness of ADCB's financial reporting and disclosure process. This included monitoring ADCB's choice of accounting policies, principles and judgments. The Committee also reviewed the IFRS 9 governance process and models and ensured ADCB's compliance with UAE Central Bank's regulations relating to internal controls, compliance and internal audit.

ROLE OF BOARD AUDIT & COMPLIANCE COMMITTEE IN SELECTION, EVALUATION AND MAINTAINING INDEPENDENCE OF ERNST & YOUNG

It is the policy of ADCB and the BACC to appoint Ernst & Young who clearly demonstrate quality and independence. The selection of Ernst & Young is driven by ADCB's External Auditor Selection Policy, BACC Terms of Reference and the Abu Dhabi Accountability Authority (ADAA) Statutory Auditors Appointment Rules.

GENERAL RESPONSIBILITIES OF BACC

THE BACC IS RESPONSIBLE FOR THE FOLLOWING:

- approve a policy for the tendering of the audit engagement which must include requirements for knowledge and competence, objectivity, independence, professional scepticism and quality control;
- recommend to the Board the appointment, reappointment and dismissal of Ernst & Young and the appropriate compensation for their services;
- review the terms of engagement of Ernst & Young prior to signing of the written contract and ensure that it includes rights, duties and responsibilities of ADCB and Ernst & Young, outcomes, timings, payment terms and conditions, communications and dispute handling, if arises, and ensure that it is in line with the applicable rules, standards and regulations;
- review the scope of the external audit plan and any additional services and ensure that the scope includes areas such as the loan portfolio and loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitisations, consolidations of and other involvement with off-balance sheet vehicles, the Pillar 3 reporting and the adequacy of internal controls over financial reporting;
- ensure that the engagement audit plan is promptly updated to reflect changes in the size, business mix or complexity of ADCB or in the instructions of the Central Bank;

- ensure that audits are conducted in accordance with the International Standards on Auditing (ISA) and the Central Bank's instructions; and
- monitor the effectiveness and independence of Ernst & Young.

SELECTION OF ERNST & YOUNG

The Board decides on the selection of a new external auditor. BACC identifies the audit firms which meets the selection criteria (including efficiency, reputation and experience) and circulates the offer request in order to determine their willingness to submit proposals for provision of external audit services. BACC and as may be deemed necessary, the Group Chief Financial Officer, the Group Chief Risk Officer and Group Chief Internal Auditor will meet with/ interview the candidates and evaluate technical and financial offers taking into consideration ADCB's budgeted fees.

BACC will ensure that the recommended audit firms are qualified and independent in form and substance (including the type of non-audit services provided and independence of individuals) and meet the following conditions:

- be licensed by the Competent Authorities to practice the profession in the UAE and to have experience in auditing public joint stock companies for at least five years;
- be approved by the Competent Authorities;
- be compliant with the International Code of Ethics for Professional Accountants;
- must not be a shareholder in the company or occupy the office of member of the Board or any technical, administrative or executive office therein; and
- must not be a partner or agent of any of the founders of ADCB or any of its Directors or a relative of any of them up to the second grade.

BACC will then recommend to the Board a firm for appointment as external auditor; the Board will meet to concur (or otherwise) with the BACC recommended audit firm. The recommendation along with the proposed fees will be submitted to ADCB's general assembly for approval. This is the only forum authorised to approve the Board's recommended audit firm and its compensation.

Further, throughout this process, ADCB's Board Secretariat or the Internal Audit Department will arrange the necessary notices, meetings, and resolutions for the resignation/removal of the existing external auditor and the appointment of the new auditor and monitor emerging best practices in audit tendering including making appropriate disclosures in ADCB's Annual Report.

The Central Bank may require ADCB to rescind the appointment of an external auditor it determines has not adhered to established professional standards or has inadequate expertise or independence.

EVALUATION OF INDEPENDENCE OF ERNST & YOUNG

In carrying out these responsibilities, the BACC reviews the performance, independence and quality of Ernst & Young annually. The performance evaluation process is carried out through an evaluation form recommended by Abu Dhabi Accountability Authority. The evaluation is carried out by three parties as below:

- A) BACC;
- B) CHIEF INTERNAL AUDITOR; AND
- C) CHIEF FINANCIAL OFFICER

Additionally, Ernst & Young also confirms that it has a quality control system for monitoring compliance with independence and continuing professional education requirements.

The review questionnaire encompasses questions on quality, independence, composition, peer review, etc. Furthermore, Ernst & Young submits an undertaking to BACC on their independence in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to their audit of ADCB's consolidated financial statements in the United Arab Emirates, and they have fulfilled their other ethical responsibilities in accordance with these requirements and the IESBA Code.

ROTATION OF AUDIT FIRM AND RATIFICATION OF ERNST & YOUNG

The selected external audit firm will be appointed for not more than one financial year by a resolution of ADCB's general assembly meeting. The Group's external audit firm appointment may be renewed twice, for a total of three consecutive years.

The Committee evaluates the performance and independence of Ernst & Young annually and recommends for the reappointment to the Board. The Committee considers, in particular, whether the retention of the firm is in the best interests of ADCB and its shareholders, taking into account the firm's quality of service, the firm's institutional knowledge and experience, the firm's sufficiency of resources, the quality of the communication and interaction with the firm, the firm's independence, objectivity and professional scepticism.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

The BACC annually approves the fee for external audit services included in the scope of External Auditors at the beginning of the year. The list of services includes audit services, audit-related services, tax services and any other service. Furthermore, the Committee can approve additional fees for the services of external auditors that have not been pre-approved at the beginning of the year or where the fee exceeds the approved amount.

ERNST & YOUNG'S FEES

Ernst & Young's aggregate fees for professional services rendered in or provided for 2020 and 2019, as applicable, were:

	2020	2019
Audit fees	3,387	4,242
Audit-related fees	537	525
Total audit / audit-related fees	3,924	4,767
Tax fees	22	315
All other fees	310	524
Total fees	4,256	5,606

Audit Fees — Audit fees relate to the audit of the consolidated financial statements, and internal control over financial reporting, including disclosures presented in the footnotes to ADCB's financial statements (for example, regulatory capital, among other disclosures). Audit fees also relate to the audit of domestic and international statutory and subsidiary financial statements, the review of the interim consolidated financial statements, the issuance of comfort letters/reports to various regulatory authorities (SCA, Central Bank of UAE, International regulators such as Jersey Financial Services Commission, Reserve Bank of India, China/Kuwait/ Qatar regulators etc.), review of ECL model and their validation for carrying out substantive procedures and services provided in connection with certain agreed-upon procedures and other attestation reports. Audit fees are those billed or expected to be billed for audit services related to each fiscal year.

Audit-Related Fees — Audit-related fees cover other audit services and attest services and services provided in connection with certain agreed-upon procedures and other attestation reports (such as bond issuance or any other attestation that requires an auditor's review), reporting and compliance matters. Fees for audit-related services are those billed or expected to be billed for services rendered during each fiscal year.

Tax Fees — Tax fees cover Tax and VAT (Value Added Tax) compliance, advisory and planning services that are billed or expected to be billed for services rendered during each fiscal year.

Other Fees — During 2020 and 2019, all Other Fees consisted primarily of amounts billed or expected to be billed for ADCB's engagement of Ernst & Young to provide guidance in connection with matters that are not covered in the above three categories.

CULTURE

A key responsibility of our Board is to ensure that ADCB builds and maintains a healthy culture. ADCB believes that companies that attach equal importance to performance and culture achieve exceptional results over time. During 2020, ADCB performed an assessment of ADCB's culture and values and recommended: (i) re-adjusting existing business activities to include a health/culture component, (ii) developing new initiatives focused on health and culture, and (iii) creating implementation plans and embedding health initiatives across ADCB.

The Board is committed to supporting gender diversity. As a result, as at 31 December 2020, women represented 10% of ADCB's Board membership. Going forward, in line with regulatory requirements, ADCB will ensure that at least 20% of candidates considered for Board membership are female and that at least 20% of Board members are female.

MANAGEMENT COMMITTEES

COMMITTEE NAME	NUMBER OF MEETINGS HELD IN 2020	RESPONSIBILITIES OF THE COMMITTEE
MANAGEMENT EXECUTIVE (MEC)	47	Most Senior Management Committee; oversees all of ADCB's businesses and operations
ASSETS & LIABILITIES (ALCO)	6	Formulates ADCB's overall assets and liabilities strategy. Makes investments and executes asset/liability transactions within delegated limits; guides the MEC and the Board on investments and asset/liability transactions above those limits
MANAGEMENT RISK & CREDIT (MRCC)	49	Approves credits within delegated limits; considers risk appetite and strategy issues; sets and recommends risk policies; guides the Board Risk & Credit Committee and the Board on credits above delegated limits and on general risk and risk policy issues
CAPITAL EXPENDITURE (CEC)	3	Reviews and approves project capital expenditures within delegated limits, and makes recommendations to the MEC and the Board on project capital expenditures above those limits
FINANCIAL PERFORMANCE MANAGEMENT (FPMC)	7	Monitors financial performance of ADCB's business lines

BOARD OVERSIGHT OF RELATED PARTY TRANSACTIONS

ADCB has in place a Related Party Transactions Policy, which details the processes in place to identify, assess, monitor and report ADCB's exposures to related parties. Upon appointment, and every quarter thereafter, all Directors are required to disclose their related parties. The Board Secretariat maintains a conflicts of interest and related parties register, which is reviewed by the NCHRG every quarter.

During 2020, all related party transactions were conducted on an arm's-length basis and approved by the Board. Directors with potential conflicts did not participate in relevant discussions or votes. The details of related party transactions are disclosed in Note 37 to the Financial Statements on page 236. These transactions were undertaken as part of ADCB's day-to-day operations.

BOARD OVERSIGHT OF THE GROUP STRUCTURE

ADCB has robust processes for establishing and dissolving entities within the Group. The Board ensures that the Group's legal, organisational, governance and operational structure is suitable for its needs. During 2020, the Board addressed subsidiary governance, with the aim of ensuring that a framework is in place to effectively govern the enlarged Group.

The number and purpose of the Group's subsidiaries are disclosed in Note 49 to the Financial Statements on page 277.

ADCB'S APPROACH TO DISCLOSURE

ADCB is committed to high standards of transparency and to enhancing our disclosures regularly to reflect local and international best-practice.

We are confident that ADCB is one of the most transparent institutions in the region. We publicly communicate relevant financial and non-financial information in a timely manner to all our stakeholder groups through several channels. As well as this Annual Report, we provide quarterly market updates, issue regular press releases, and ensure ADCB's website is up to date. ADCB's Investor Relations department ensures strong communication with our shareholders and potential investors.

Finally, recognising the importance of effective internal communication, we ensure all employees are kept aware of all new developments. These include ADCB's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations, and other relevant information.

REMUNERATION AND REWARD — GUIDING PRINCIPLES

ADCB supports levels of remuneration necessary to attract, retain and motivate employees capable of leading, managing and delivering quality service in a competitive environment.

However, our remuneration structure is conservative, and we have practices and policies that promote effective risk management. Our remuneration packages are structured to reflect duties and responsibilities that are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards are based only on the results of a rigorous performance appraisal system with a robust management decision-making, review and approvals process.

Considering market trends and constraints, our remuneration programme incorporates both short- and long-term incentives that align the interests of ADCB's employees with the interests of shareholders and other stakeholders.

Performance-related elements are designed to minimise employee turnover and to inspire employees to perform at the highest levels, consistent with effective risk management.

TOTAL REWARD — KEY COMPONENTS

As shown in the following table, employees can receive three types of reward: fixed pay, variable pay and retention scheme.

BANK-WIDE VARIABLE PAY FRAMEWORK

The Variable Pay Framework has been designed to align employees' interests with the long-term interests of ADCB's shareholders and to incentivise higher performance while avoiding excessive risk-taking. It also distinguishes amongst different functions of ADCB, to ensure alignment to the relevant market.

Definition and Components of Pay

FIXED PAY

DEFINITION	COMPONENTS	2020 KEY MANAGEMENT FIXED PAY
Fixed pay is based on the market rate for each role and is impacted by the employee's contributions over time. Fixed pay reviews depend on whether the employee achieved specific and measurable objectives and delivered a prescribed performance level.	- Basic Salary Allowances — Social allowance (UAE Nationals) — Job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance) — Benefits based on band, such as: — Leave fare — Private medical insurance — Life insurance coverage — Education allowance — Annual leave	In 2020, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 27.680 million.

VARIABLE PAY

DEFINITION	PERFORMANCE CRITERIA	2019 VARIABLE PAY AWARDS
Employees may receive variable pay based on their performance over the year. Because it is performance-based, variable pay is at risk, and the amount received, if any, may change each year.	- Individual award amounts are dependent on three criteria: — Individual performance; — Business function performance; and — Overall performance of ADCB. For more information, see ADCB's Variable Pay Framework & Governance — Key Facts, on page 142.	For performance in 2019, awards to employees in 2020 consisted of cash variable pay awards of AED 181.268 million and deferred compensation plan awards of AED 53.215 million. Key Management received AED 24.788 million in cash and AED 21.863 million in deferred compensation from the amounts set forth above.

RETENTION SCHEME

DEFINITION	SELECTION CRITERIA	2020 RETENTION SCHEME AWARDS
In 2014, ADCB introduced a share-based Retention Scheme for those in key positions and for high potential UAE Nationals. The Retention Scheme, which is independent of variable pay awards, is designed to ensure business continuity by mitigating turnover risk and the related operational risk. Invitations to join the Retention Scheme are at the sole discretion of the NCHRG; members of the Management Executive Committee are not eligible to participate. Retention Scheme awards vest after four years from the award date.	— Incumbents in 'mission critical' positions — UAE Nationals with exceptional growth potential	No retention award was made during 2020.

The NCHRG oversees the design, operation and effectiveness of the framework and allocation of awards, including overall amounts, distribution amongst business groups and actual awards to Senior Management (including material risk takers and senior members of ADCB's control functions).

ADCB uses a balanced scorecard (BSC) approach to measuring employee performance, including the following KPI categories:

- Financial;
- Customer Service (minimum 30% weightage);
- Risk; and
- Learning and Growth.

EFFECTIVENESS OF THE VARIABLE PAY FRAMEWORK

Effectiveness of the Variable Pay Framework is monitored on an annual basis through a set of KPIs, including:

- Correlation between total variable pay pool and ADCB's Net Profits; Correlation between individual performance and variable pay award; Attrition rate for the employees awarded deferred variable pay as compared to the overall attrition rate; and
- Leadership Stability-Attrition rate at Senior Management level (top 100 executives) as compared to the industry average for the same level.

In addition, in accordance with best practices and the requirements of the UAE Central Bank's regulations on corporate governance, the NCHRG regularly seeks independent consultants' views on (a) the quantum, (b) design, and (c) effectiveness of ADCB's variable pay awards and framework. An independent review of the design and effectiveness of ADCB's variable pay framework was conducted in 2020.

ADCB'S VARIABLE PAY FRAMEWORK & GOVERNANCE — KEY FACTS

Reflects individual, business function and Bank-wide performance	YES
Distinguishes amongst different functions of ADCB to ensure alignment to the relevant market	YES
Defers variable pay award above specified threshold	YES
Currency of deferred compensation	CASH AND SHARES
Duration of deferral of variable pay	3 YEARS
Awards subject to thresholds, caps, clawback rules, malus clause, and deferral and retention provisions	YES
Managed by remuneration professionals experienced in the governance of all types of compensation and benefits	YES
Designed in conjunction with, and reviewed by, independent external advisers reporting directly to the NCHRG	YES
Relies on regular external benchmarking to ensure alignment with evolving global best practices	YES
Incorporates constant monitoring of developments in remuneration governance to ensure all variable pay plans evolve in line with ADCB's needs and external developments	YES
Designed to avoid excessive risk-taking	YES
Includes a minimum shareholding rule for Key Management	YES
Aligns employee interests with the long-term interests of ADCB's shareholders	YES

ISLAMIC BANKING GOVERNANCE

ADCB Islamic Banking is the brand under which we offer retail and corporate Shari'ah-compliant financial solutions to our Consumer, Wholesale and Treasury clients.

ADCB is regulated by the Central Bank of the UAE, and its Islamic Banking activities are supervised by an independent Internal Shari'ah Supervision Committee (ISSC). The ISSC is the final authority within ADCB regarding all Shari'ah-related matters. It operates in accordance with the resolutions, standards and guidelines issued by the Higher Shari'ah Authority of the Central Bank of the UAE (HSA). HSA follows the Shari'ah Standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB).

ISSC functions in line with the Shari'ah governance framework provided within the terms of reference (TOR) of the ISSC that are approved by the members of the ISSC. The TOR set out the procedures for the functioning of the ISSC such as holding of meetings, issuing of Fatwas and Shari'ah review.

ADCB Islamic Banking's Shari'ah governance is implemented and overseen by the internal Shari'ah Advisor. Fatwas (pronouncements and approvals) are issued by the ISSC to certify compliance with principles of Shari'ah for all products and services as well as for bespoke structured deals. The ISSC's review covers the product structure, the underlying Shari'ah contract, legal documentation, operational process flow and all associated product literature. Fatwas issued by the ISSC are published on ADCB's website and are available at all branches.

ADCB Islamic Banking maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from ADCB's conventional funds. ADCB's consolidated accounts include the results of ADCB Islamic Banking and are separately disclosed in the notes.

The respected Shari'ah scholars listed below make up the ISSC of ADCB Islamic Banking.

PROFESSOR DR. JASSIM AL SHAMSI, CHAIRMAN & EXECUTIVE MEMBER

Professor Jassim is the first Emirati Shari'ah scholar to lead the ISSC of ADCB Islamic Banking. He previously served as Dean of the College of Shari'ah and Law, UAE University. In addition, he Chairs or is a member of many other ISSCs for Islamic banks/windows and financial institutions.

DR. SALIM AL-ALI, MEMBER

Dr. Salim Al-Ali holds a Ph.D. in Financial Law from the University of London, in the UK. He also holds a Master's Degree in Islamic Banking and Finance from the International Islamic University of Malaysia. In 2016, he received the prestigious Rashid Award for Scientific Outstanding. Dr. Salim is the author of 'Raising Capital on Sukuk Markets — Structural, Legal and Regulatory Issues'.

MR. KAMRAN KHALID SHERWANI, ISSC SECRETARY

Mr. Kamran is Head of Internal Shari'ah Control at ADCB Islamic Banking. He provides Shari'ah guidance on all day-to-day Shari'ah-related matters and obtains ISSC guidance and approvals in respect of Islamic products and services. He received a Degree in Shari'ah and Law from the International Islamic University and is an AAOIFI certified Shari'ah Advisor and Auditor. He has served as Shari'ah advisor to several major Islamic banks.

ANNUAL REPORT OF THE INTERNAL SHARI'AH SUPERVISION COMMITTEE OF ABU DHABI COMMERCIAL BANK ISLAMIC BANKING DIVISION

Issued on: 28 January 2021

To: Shareholders of Abu Dhabi Commercial Bank PJSC
(the Institution)

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards ('Regulatory Requirements'), the Internal Shari'ah Supervision Committee of the Institution ('ISSC') presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ending on 31 December 2020 ('Financial Year').

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

- a. undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ('Institution's Activities') and issue Shari'ah resolutions in this regard, and
- b. to determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ('HSA') to ascertain compliance of the Institution with Islamic Shari'ah.

The Senior Management is responsible for compliance of the Institution with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ('Compliance with Islamic Shari'ah') in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception.

3. Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shari'ah supervision of the Institution's Activities by reviewing those Activities, and monitoring them through internal Shari'ah control division or section, internal Shari'ah audit, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. ISSC's activities included the following:

- a. Convening (4) meetings during the year.
- b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.
- c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.
- d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.
- e. Supervision through internal Shari'ah Control division or section, internal Shari'ah Audit, of the Institution's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- f. Providing guidance to relevant parties in the Institution to rectify (where possible) incidents cited in the reports prepared by the internal Shari'ah control division or section, internal Shari'ah audit, and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified for such revenue to be disposed towards charitable purposes.
- g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
- h. Specifying the amount of Zakat due.
- i. Communicating with the Board and its subcommittees, and the Senior Management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the Senior Management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Institution's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also provided directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee of the Institution



PROFESSOR DR. JASSIM AL SHAMSI
Chairman of the Committee



DR. SALIM AL-ALI
Member

AL HILAL BANK PJSC

BOARD OF DIRECTORS (AS AT 31 DECEMBER 2020)

- Ala'a Eraiqat¹
- Saoud Al Jassem
- Mohamed Al Jayyash¹
- Kevin Taylor¹
- Arup Mukhopadhyay¹
- Deepak Khullar¹

BOARD MEMBERS

1 Please refer to pages 120–122 for the profiles of these Directors.

SAOUD AL JASSEM

Saoud Al Jassem was appointed to join the Board of Al Hilal Bank in February 2019 and was elected by the shareholders as Chairman of Al Hilal Bank Kazakhstan. Saoud has over 17 years of experience in Corporate Banking, Wealth Management, Trade Finance and Internal Audit. Saoud has been employed by ADCB since June 2013. He currently leads the development of ADCB's relationship with the various local and federal governments in UAE for all their banking services and funding requirements as Head of Government Banking. Prior to this role, he managed government banking in Dubai & Northern Emirates as well as heading Strategic Accounts within Transaction Banking in the region. Previously, at Emirates NBD, he was part of Wealth Management and Client Relationship Management. He also held various positions at Standard Chartered Bank within the Global Internal Audit Department in MENA/ SA as well as Global Corporate where he started his career and spent over seven years in various assignments. Saoud holds a Master of Business Administration Degree from London Business School (UK) and a Bachelor's Degree in Finance from Drexel University, Philadelphia, USA.

EXECUTIVE MANAGEMENT

1. ABDUL SHAKEEL AIDAROOS (CHIEF EXECUTIVE OFFICER)

As CEO, Abdul Shakeel is responsible for working closely with the Board of the Bank to set and implement the strategic direction of the organisation. Abdul Shakeel has over 25 years of banking industry experience, with deep expertise in retail banking, digital innovation and risk management. He has held senior positions at ADCB for 15 years, including the last five years as Head of Retail Banking, where he managed a team of 2,000 professionals and launched many of ADCB's award-winning consumer products and digital banking channels. Prior to joining ADCB, he spent over 10 years with Citibank in the UAE. Abdul Shakeel holds a Master of Science Degree in Risk Management from NYU Stern School of Business, New York, USA.

2. ROSS BARANET (CHIEF RISK OFFICER)

Ross Baranet is the Chief Risk Officer at Al Hilal Bank. He has spent 25 years in the field of risk management across nine countries and is responsible for identifying and mitigating current and emerging risks at the Bank. Before joining Al Hilal Bank and the ADCB Group, Ross held executive roles in HSBC's global operations, including Chief Risk Officer (Philippines), Director of HSBC Retail Savings Bank (Philippines), Chief Risk Operating Officer (Middle East), and Chief Risk Officer (Korea). Previous roles include operational risk, approvals, collections, policy, audit, and governance.

3. MARYAM YOUSUF AHLI (HEAD OF CORPORATE COMMUNICATION)

Maryam Yousuf Ahli has been the Head of Marketing and Corporate Communication at Al Hilal Bank since 2008. With over 15 years' experience in the industry, Maryam leads a team of senior managers, while working closely with internal and external stakeholders. She plans, develops and maintains a year-long marketing schedule, ensuring that all marketing priorities align to business goals. An expert in strategic brand building, and digital and social media, Maryam liaises with a network of creative and media agencies throughout the execution of all Retail and Commercial Banking advertising campaigns. Acting as Al Hilal Bank's brand guardian, she ensures all communications comply with regional and global brand guidelines and strategies. As well as leading the development and implementation of local sponsorship strategies and plans, Maryam is at the forefront of the Bank's pioneering CSR strategy, in line with Abu Dhabi's Environmental Vision.

4. AYMEN AL SAADI (HEAD OF DIGITAL PLATFORM)

Aymen Al Saadi was appointed Chief of Digital Platform for Al Hilal Bank in 2020. In this role he provides leadership oversight to the implementation of bank's Digital Platform as well as manages strategic functions such as Digital Platform Ecosystem, Partnerships and Customer Loyalty. A leader with over 15 years' experience in Innovation, Information Technology, Fintech and Digitisation, he has deep experience in Blockchain technology, cryptocurrency and enhanced UX/CX experience delivered through digital channels. Aymen previously spent

over a decade in leadership roles with diversified institutions such as Louvre Abu Dhabi overseeing the technology management design and build until a successful inauguration. He holds an MBA with concentration in Innovation and Entrepreneurship from Higher Colleges of Technology - Abu Dhabi and a Diploma in Global Banking Programme from Columbia Business School, USA.

5. SULTAN AL MAHMOOD (CHIEF HUMAN RESOURCES OFFICER)

Sultan Al Mahmood is Chief Human Resources Officer at Al Hilal Bank. With almost 20 years of experience in the field of Human Resources and Relationship Management, Sultan is responsible for HR development, transformation, and strategic HR activities. Before joining the Bank, Sultan served as Senior Vice President Human Resources at Etihad Airways. He also held the roles of Executive Director of Strategic Performance at Tourism Development and Investment Company (TDIC), and Executive Vice President and Head of Human Resources at Abu Dhabi Commercial Bank. In his early career, he worked as a Compensation and Employee Relations Manager at Amiri Flight (now Presidential Flight) and as a Relationship Manager at Citibank, UAE. Sultan holds a Bachelor's Degree in Business Administration and a Master's Degree in Human Resources Development from Webster University in Geneva, Switzerland. Sultan also holds a Master of Business Administration in Strategic and Security Studies from National Defense College, Abu Dhabi.

6. ABDEL KARIM TAHA (CHIEF INFORMATION OFFICER)

Abdel Karim Taha is the Chief Information Officer at Al Hilal Bank. With more than 22 years of experience in the field of Information Technology and Consulting, Abdel Karim leads the Information Technology team and is responsible for implementing future technologies and delivering the transformation initiatives in line with the Bank's objectives and strategy. Before joining the Bank, Abdel Karim served as Chief Information Officer at Union National Bank. He also held senior consulting positions at Accenture. In his early career, Abdel Karim worked as a specialist in Geographic Information Systems. Abdel Karim holds a Bachelor's Degree in Electrical Engineering from Jordan University of Science and Technology, and holds several Executive Certificates from MIT and other institutions.

7. DR. MOHAMED OBADAH (HEAD OF SHARI'AH SUPERVISION)

Dr. Mohamed Obadah Adi is Head of Shari'ah Supervision at Al Hilal Bank. With almost 23 years of experience in the field of Shari'ah and banking, Dr. Mohamed is responsible for monitoring and supervising activities to maintain Shari'ah compliance and assist in developing and creating innovative Shari'ah investment and financing products and services. Before joining the Bank, Dr. Mohamed was a Supervisor of Islamic Studies and Arabic Language at ADNOC's Technical Institute. Dr. Mohamed holds a Doctorate Degree (PhD) in Islamic Studies from the University of Wales in the UK and Master's Degree from Al Azhar University's Faculty of Islamic and Arabic Studies. He received his Bachelor's Degree in Islamic Studies from United Arab Emirates University.

8. RAJESH ARORA (HEAD OF FINANCE)

Rajesh Arora was appointed as the Head of Finance for Al Hilal Bank in November 2019, prior to which he was the Head of Finance for UNB. He has over 23 years of experience in the banking industry spread across various geographies. Before joining UNB, Rajesh was with Standard Chartered Bank for more than 18 years where he performed various roles, including Chief Financial Officer, UAE. His last role in Standard Chartered Bank was as the Global Head of Finance Transformation for financial reporting based in Singapore. Rajesh completed his ICWA in India and holds a Postgraduate Diploma in Management (Finance) from Symbiosis Centre for Management and HRD, India.

9. NADA SHADID (HEAD OF TREASURY)

Nada Mohamed Shadid is the Head of Treasury at Al Hilal Bank. She is responsible for the management of liquidity, gaps, and regulatory ratios, as well as money markets funding, foreign exchange and Sukuk investment portfolios of the Bank. Nada joined the Bank in 2019 and has 10 years of experience in Treasury and Investments. Previously, Nada held significant Treasury positions in ADCB, where she was responsible for running the short-term investments portfolio, as well as generating liabilities from strategically important clients and markets. Nada holds a Bachelor's Degree in International Management from Franklin University in Lugano, Switzerland.

10. ZSOMBOR BROMMER (CHIEF COMPLIANCE OFFICER)
Zsombor Brommer is the Chief Compliance Officer at Al Hilal Bank. With more than 20 years of experience in global banking as a compliance and digital risk management professional, Zsombor is responsible for overseeing and managing regulatory compliance, money-laundering, terrorism financing, and sanctions compliance risks within the organisation. He ensures the Bank meets applicable regulations and policies, leading compliance activities in line with its strategy. Before joining the Bank, Zsombor served as Group Senior

Compliance Manager in HSBC. Previously he worked as Head of Compliance in Citibank Hungary and had compliance responsibilities as EMEA Regional Commercial Banking Compliance Officer. He was also Chairman of the Hungarian Banking Association AML Working Group. Zsombor holds Bachelor's Degrees both in Economics and Communication from Kodolanyi Janos University, Hungary.

11. HUSSAM ABU AISHEH (SENIOR MANAGING DIRECTOR – INTERNAL AUDIT)
Hussam Abu Aisheh is the Senior Managing Director – Internal Audit at Al Hilal Bank.

With more than 25 years of experience in the fields of internal and statutory audit, Hussam is responsible for leading and managing internal audit activities in the Bank. Prior to joining the Bank, he headed the Internal Audit Function at Sharjah Islamic Bank for nine years. Previously, he managed a diversified portfolio of statutory audit clients and worked on forensic engagements for KPMG UAE. Hussam started his professional career with Arthur Andersen, Jordan office and holds a Bachelor's Degree in Accountancy. He is a Certified Internal Auditor and a Certified Information Systems Auditor.

NAME	CHAIRMAN/MEMBER	ATTENDANCE
ALA'A ERAIQAT	C	6
SAOUD AL JASSEM	M	6
MOHAMED AL JAYYASH	M	6
KEVIN TAYLOR	M	5
ARUP MUKHOPADHYAY	M	6
DEEPAK KHULLAR	M	6

BOARD COMPOSITION AND REMUNERATION
The Board were appointed in May 2019. ADCB employees who are also appointees to the Group subsidiaries' boards do not receive board remuneration for such roles. The Board of Al Hilal Bank entirely comprises senior executives of ADCB who collectively have diverse skills and experience, including in retail banking, treasury, risk, finance, operations and customer service.

In 2020, the board met six (6) times. The table above shows the Board's attendance.

THE BOARD'S AGENDA IN 2020
The Board regularly discusses various items that are fundamental to the direction of the Bank, including business performance, strategy, risk appetite and management, compliance, and human resources. Details of the agenda items discussed by the Board during 2020 are set out on page 149.

OVERVIEW OF THE GOVERNANCE FRAMEWORK
Following its acquisition by ADCB in 2019, Al Hilal Bank operates as a separate Islamic bank wholly-owned by ADCB. This unique corporate structure presents Al Hilal Bank with various opportunities to benefit from the policies and business support of its parent, ADCB Group.

Al Hilal Bank's strategy is to focus on digital retail business. To build on this strategy, its corporate book was transferred to ADCB Group, with the consent of the UAE Central Bank, in 2019. This transfer significantly reduced the complexity of the Bank's business operations, and has also provided opportunities for Al Hilal Bank to operate under a streamlined governance structure.

BOARD'S OVERSIGHT OF RISK AND COMPLIANCE
Al Hilal Bank's Board is responsible for setting the Bank's risk appetite and risk management framework, subject to ADCB oversight, while respecting the independent legal and

AL HILAL BANK BOARD AGENDA ITEMS

AREA	AGENDA ITEM
GOVERNANCE / AUDIT / STRATEGY	– 2020 rolling agenda – UAE CB Corporate Governance analysis – UAE CB major acquisitions regulations – Customer service metrics – Management committees report – Strategy updates – Internal Audit updates – Internal Quality Assurance review – Internal Audit charter – Internal Audit strategy (2022-2022, including 3-year audit plan) – Internal Audit department manual – Shari'ah Governance framework – 2021 budget – 2021 Board schedule and rolling agenda
FINANCIAL PERFORMANCE	– Financial results including business performance – Competitor analysis – High level 3-year capital plan – Periodic financial update
GROUP CHIEF EXECUTIVE OFFICER / BUSINESS UPDATES	– Chief Executive Officer's update – Digitalisation update
HR-RELATED / REMUNERATION / NOMINATION	– HR update – Emiratisation update – Remuneration for Al Hilal Takaful – Remuneration for Al Hilal Kazakhstan
RISK AND COMPLIANCE	– Risk update (including risk appetite statement) – Compliance updates – Circular resolutions – Risk Assessment – Digital Bank – Approval of ICAAP 2020 – New Basel Standard – Information security policy – Whistle-blowing policy

governance responsibility that might apply to Al Hilal Bank. The Board regularly monitors the risks inherent in Al Hilal Bank's businesses including credit, market, liquidity, regulatory, reputational, strategic and operational risks. The risk management framework is periodically reviewed and updated to reflect changes in Al Hilal Bank's strategy, economic environment and regulatory changes. During 2020, the Board reviewed and amended compliance policies and oversaw an update of the Bank's fraud risk management system to further enhance its risk management and compliance frameworks. Another important area of focus was cybersecurity.

2020 SHARI'AH REPORT
The Fatwa and Shari'ah Supervisory Board (FSSB), supported by the Shari'ah Supervision Department, is responsible for ensuring that all of Al Hilal Bank's products and services comply with Shari'ah principles.

ANNUAL REPORT OF THE INTERNAL SHARI'AH SUPERVISION COMMITTEE OF AL HILAL BANK

Issued on: Thursday, 8th Jumada Al Akhirah 1442 AH, corresponding to 21st Jan 2021

To: Shareholders of Al Hilal Bank ('the Bank')

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards ('Regulatory Requirements'), the Internal Shari'ah Supervision Committee of the Bank ('ISSC') presents to you its Annual Report for the financial year ending on 31 December 2020 ('Financial Year').

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Bank; and the Bank's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ('Bank's Activities') and issue Shari'ah resolutions in this regard, and to determine Shari'ah parameters necessary for the Bank's Activities, and the Bank's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ('HSA') to ascertain compliance of the Bank with Islamic Shari'ah.

The Senior Management is responsible for compliance of the Bank with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ('Compliance with Islamic Shari'ah') regarding the Bank's Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Bank's Activities without exception.

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari'ah supervision of the Bank's Activities through review of those Activities, and monitoring through internal Shari'ah supervision department and internal Shari'ah audit in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard.

While taking into consideration COVID-19 pandemic's impacts, the ISSC's activities included the following:

- Convening six (6) meetings during the financial year.
- Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Bank's Activities.
- Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Bank and its subsidiaries to the ISSC for approval.

- Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.
- Supervision through internal Shari'ah supervision department and internal Shari'ah Audit of the Bank's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- Providing direction to relevant parties of the Bank and its subsidiaries to rectify (where possible) findings cited in the reports submitted by internal Shari'ah supervision department and internal Shari'ah audit, and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.
- Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.
- Specifying the amount of Zakat due on each of the Bank's shares.
- Specifying the amount of Zakat due on the depositor's reserves.
- Monitoring charity account sources and payments.
- Communicating with the Board, and the Senior Management of the Bank concerning compliance of the Bank with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Bank is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the Senior Management and the Board of the Bank. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Bank's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports, including two breaches that resulted in profit forfeiture and six breaches that did not result in profit forfeiture. The ISSC also issued directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee

PROF. JASSIM ALI SHAMSI
Chairman

DR. IBRAHIM ALI AL MANSOORI
Deputy Chairman

DR. SALIM ALI AL ALI
Member

AUDIT & COMPLIANCE COMMITTEE

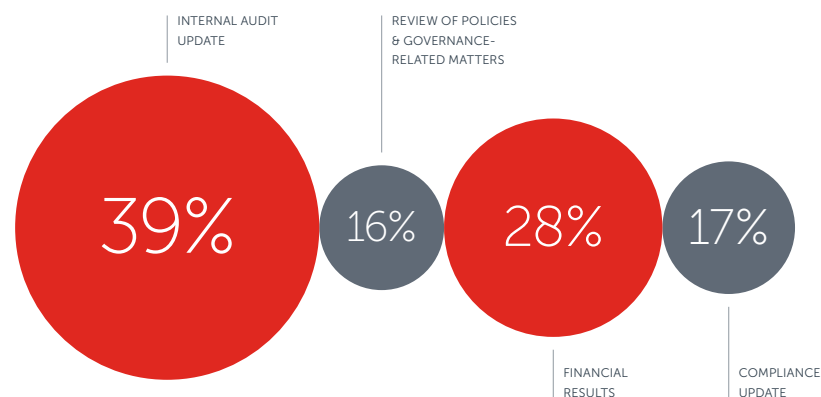
Composition as of 31 December 2020:

Aysha Al Hallami (Chairlady), Ahmed Saeed Al Calily,
Khalid Deemas Al Suwaidi and Mohamed Al Dhahiri
Secretary: Rami Raslan

OUR REMIT

The primary responsibilities and functions of the BACC are to help the Board to fulfil its duties to ensure and oversee:

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



TIME ALLOCATION FOR 2020
BACC MEETINGS

Statement from the Chairlady of the Audit & Compliance Committee

Dear Shareholders,

During 2020, the BACC held nine (9) meetings, during which the Committee:

- Assessed the objectivity and effectiveness of ADCB's financial reporting and disclosure process. This included monitoring of ADCB's accounting policies, principles, judgments, ongoing concerns and business continuity;
- Reviewed and discussed ADCB's IFRS 9 governance process, models and implications for ADCB's financial statements, and ensured ADCB's compliance with UAE Central Bank regulations relating to IFRS 9;
- Considered purchase price adjustments recommended by management following the merger;
- Considered the potential macro-economic impact of the COVID-19 pandemic on business and financial performance;
- Received special internal audit reviews as matters of concerns in light of the current market conditions and COVID-19 impact;
- Evaluated Ernst & Young's qualifications, performance, independence and objectivity; reviewed the scope of work proposed by Ernst & Young for 2020, and exercised oversight of all non-audit work carried out by the external audit firm;
- Considered the performance, effectiveness and activities of ADCB's Group Internal Audit function (and separately, the performance of the Head of Internal Audit), and reviewed updates to its audit plan, staffing, training, charter, manual and strategy, taking note of the UAE Central Bank's regulations on internal control, compliance and internal audit;
- Oversaw the independent assessment of the risk governance framework by ADCB's Group Internal Audit function, and ensured that an independent review of ADCB's systems and processes was carried out as part of the Group Internal Auditing process;
- Oversaw the activities, and assessed the performance, of ADCB's Group Compliance function and considered updates to relevant policies, including compliance with AML (Anti-money laundering)/CFT (Combating the Financing of Terrorism and illegal organisation) and Sanction policies to ensure the robustness of ADCB's compliance framework, taking into account UAE Central Bank Corporate Governance Regulations;
- Received regulatory (including COVID-19 notices), compliance, fraud and operational risk management updates;
- Reviewed the effectiveness of ADCB's internal controls framework and ensured the existence of an effective system of internal controls, taking note of the UAE Central Bank's new regulations on internal control, compliance and internal audit;
- Reviewed ADCB's quarterly and annual audited financial statements;
- Reviewed and ensured appropriate action regarding audit and review observations raised by the Internal Audit Function and Ernst & Young, the UAE Central Bank, and other regulators;
- Reviewed the Committee's terms of reference and the policies sponsored by the Committee, and ensured that the new regulations were reflected, as appropriate;
- Received and considered Internal Audit's Annual Report for 2019;
- Received detailed reports on certain non-performing loans and business segments, and recommended suitable provisioning for those loans;
- Reviewed quarterly reports on the Directors' shareholdings in ADCB's shares; and
- Reported regularly to ADCB's Board.

During 2020, the Committee continued to work with ADCB's management and Ernst & Young to ensure the effectiveness of ADCB's IFRS 9 governance-related practices, expected credit loss (ECL) models and controls. This included overseeing the staging of key accounts (and their appropriateness post-merger), as well as ensuring that this process remained prudent. The Committee also ensured that financial disclosures complied with IFRS 9 requirements and that any subjective judgments had been made appropriately.

The Committee continued to oversee the implementation of the UAE Central Bank Corporate Governance Regulations.

The Committee maintained frequent communication and coordination with ADCB's management regarding the significant implications of the COVID-19 pandemic and its impact on the businesses and financials. As a result, a range of new procedures, policies and measures were introduced, in accordance with UAE Central Bank regulations, to ensure business continuity and the health and safety of customers and employees.

ADCB's external auditor was due to be rotated in 2020, in line with local and international best practice and regulatory requirements. As such, the Committee recommended the appointment of Ernst & Young as ADCB's new external auditors for approval by the Board and shareholders.

The Committee met regularly with ADCB's external and internal auditors without the presence of ADCB's management to discuss issues that arose. In addition, Committee members attended meetings of the Risk & Executive Committee to ensure adequate flow of information between the two Committees and the effective coverage of all risks, including emerging risks. It also oversaw any adjustments to ADCB's risk governance framework in light of evolving business plans and the external environment.

The Committee received annual confirmation from ADCB's external auditors that ADCB's internal controls has been assessed for effectiveness. The Committee ensured that ADCB's Internal Audit Plan for 2020 focused on providing assurance that ADCB's internal governance and controls remained robust.

The Committee was pleased to note that it made positive progress during 2020 towards meeting its responsibilities and objectives.

LOOKING AHEAD TO 2021

The Committee's schedule in 2021 includes nine (9) meetings focused on, amongst other things, the integrity of ADCB's financial statements, IFRS 9 governance practices, ECL models, assessment and oversight of the activities and performance of Group Internal Audit and Compliance functions, as well as the performance of ADCB's external auditors.

The Committee will continue to work closely with ADCB's management to address the long-term challenges of the COVID-19 pandemic, focusing on key areas to ensure resilience in the new environment (post-pandemic), and to keep abreast of governmental and regulatory announcements. To that end, the Committee will continue to review and monitor changes and challenges in key sectors of the economy.

The Committee will continue to coordinate its activities with those of the Board Risk & Executive Committee to ensure a free flow of information between the two Committees. The Committee will also continue to ensure that ADCB's Group Internal Audit Plan mirrors emerging risks and provides the necessary assurances in the current evolving economic and operational environment.

Aysha Al Hallami
Chairlady of the BACC

BACC REPORT ON SELECTION OF AUDITOR

ADCB Board Audit & Compliance Committee is composed of four (4) Board members. The Board has determined that all Committee members are independent under the Securities & Commodities Authority corporate governance codes.

Management is responsible for preparing and the overall reporting process with respect to ADCB's consolidated financial statements, and Ernst & Young reviews and confirms the effectiveness of the internal control over financial reporting. Ernst & Young, ADCB's independent external audit firm, is responsible for planning and conducting an independent audit of ADCB's consolidated financial statements in accordance with the standards issued by the International Accounting Standard Board (IASB) and for expressing an opinion as to the conformity of Bank's financial statements with these standards and as to the effectiveness of the internal controls over financial reporting. The Committee's responsibility is to monitor and oversee these processes.

The Committee annually evaluates Ernst & Young's qualifications, performance, quality and independence. The Committee also oversees the performance of the internal audit function managed by ADCB's Chief Internal Auditor. The Committee has reviewed and discussed with management and with the external audit firm ADCB's audited financial statements for the year ended 31 December 2020, management's assessment of the effectiveness of ADCB's internal control over financial reporting, and Ernst & Young's evaluation of ADCB's internal control over financial reporting. In addition, the Committee has discussed with Ernst & Young the matters that independent registered public accounting firms must communicate to audit committees under applicable standards.

The Committee has also discussed and confirmed with the external audit firm its independence from ADCB, and received all required written disclosures and correspondence required by the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to their audit of ADCB's consolidated financial statements in the United Arab Emirates, and they have fulfilled their other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements for the year ended 31 December 2020 and the related footnotes be included in the Bank's Annual Report for the year ended 31 December 2020.

Submitted by the BACC

RISK & EXECUTIVE COMMITTEE

Composition as of 31 December 2020:

Saeed Almazrouei (Chairman), Khaled H Alkhoori, Aysha Al Hallami, Abdulla Al Muttawa and Carlos Antoine Obeid
Secretary: Rami Raslan

OUR REMIT

The primary responsibilities and functions of the BREC are to help the Board to fulfil its duties to ensure and oversee:

- ADCB's development of strategy, and business performance against approved strategy;
- ADCB-wide risk governance framework which includes ADCB's risk appetite;
- ADCB's development of risk management tools and compliance with regulatory requirements relating to risk management;
- ADCB's progress of technology transformation; and
- ADCB's major credit commitments.



TIME ALLOCATION FOR 2020 BREX MEETINGS

Statement from the Chairman of the Risk & Executive Committee

Dear Shareholders,

During 2020, the BREC held 18 meetings, during which the Committee:

- Reviewed the development of ADCB's strategy, performance and achievement of annual targets;
- Reviewed ADCB's budget;
- Reviewed ADCB's risk profile and ensured that it was managed within the context of the risk appetite approved by the Board;
- Reviewed ADCB-wide risk governance framework which includes ADCB's risk culture, risk appetite and risk limits;
- Reviewed and discussed ADCB's digitisation strategy roadmap;
- Reviewed credit exposures that are high value or sensitive credit decisions;
- Received regular updates from the Group Chief Executive Officer on the COVID-19 pandemic, the Targeted Economic Support Scheme (TESS) and related deferrals, and ADCB's liquidity and business position;
- Received and considered updates from the Chief Credit Officer on ADCB's credit exposures;
- Received special internal audit reviews on matters of concern in light of COVID-19 and its impact;
- Reviewed ADCB's key risks, including liquidity, credit, market, compliance, fraud and operational risks and associated policies, and ensured that they were managed within ADCB's risk framework and appetite, and in full compliance with UAE Central Bank regulations;
- Reviewed reports on any material breaches of risk limits and the adequacy of proposed actions;
- Reviewed ADCB's compliance with applicable laws and regulations relating to risk management systems and procedures;
- Approved ADCB's internal capital adequacy assessment process (ICAAP) report (submitted to the UAE Central Bank), covering assessment of material risks, capital plan and enterprise-wide stress testing results;
- Reviewed ADCB's liquidity position;
- Reviewed ADCB's exposure to economic sectors, including hospitality, real estate, contracting and retail;
- Reviewed ADCB's internal rating setting guidelines for EIBOR submissions;
- Reviewed the effectiveness of ADCB's market risk framework and relevant policies, including ADCB's interest rate risk in banking book (IRRBB) policy, in line with UAE Central Bank regulations;
- Reviewed ADCB's investment and liquidity portfolio;
- Reviewed ADCB's various segments and subsidiaries including Retail, Commercial, Dubai exposure, ADCE & ADCP;
- Reviewed ADCB's IT, physical security and cyber risks, and ensured that ADCB had implemented a proactive approach towards managing these risks;
- Considered the outcome of stress tests and reverse stress tests conducted on various key portfolios, and ensured that outcomes of these tests were reflected in ADCB's risk appetite, capital adequacy assessments, budgets, capital and liquidity plans; and
- Reviewed ADCB's business continuity and data management framework.

LOOKING AHEAD TO 2021

During 2020, the Committee continued to focus on ADCB's adherence to its strategy and risk appetite. In particular, the Committee reviewed initiatives to develop and implement ADCB's short- and long-term business strategy, which is focused on growing market share in the UAE, maximising efficiency and profitability, capturing integration synergies and implementing digital transformation.

The Committee coordinated closely with ADCB's Senior Management to assess all large exposures and their impact on ADCB's financial performance. The Committee reviewed current portfolios for consistency with ADCB's risk-return profile and risk appetite limits, and assessed mitigation plans to ensure they remained in line with strategy.

The Committee also reviewed ADCB's risk appetite metrics and approach to credit risk management to ensure they remained well aligned with changing market conditions, regulatory requirements, and the nature, size and complexity of ADCB.

The Committee continued to monitor progress related to ADCB's digitisation strategy and implementation roadmap as well as the achievement of related key performance indicators.

The Committee is pleased to note that it made positive progress during 2020 towards meeting its responsibilities and objectives.

The Committee's schedule in 2021 includes twelve meetings, primarily focused on ADCB's strategy, risk framework and digitisation. The Committee will continue to oversee the execution of ADCB's strategy, including tactical and short-term efficiency measures and cost optimisation, changes to operating models, risk appetite and digitisation, as required to adapt to changing market conditions.

In addition, the Committee will continue to oversee key sensitive credit decisions, and will work closely with ADCB's management to review its portfolio prudential limits. The Committee will also continue to track ADCB's implementation of its digitisation strategy, focusing on achieving true digitisation (including the use of artificial intelligence and data science) rather than mere automation.

The Committee will ensure strong communication across the Board's committees to effectively make any necessary adjustments to ADCB's governance framework to maintain resilience and a clear strategic focus in the current operating environment.

The Committee will also continue to play its vital role in carrying on the Board's guidance and directives and working closely with the Senior Management to translate such guidance into achievable KPIs and monitoring the achievement thereof.

Saeed Almazrouei
Chairman of the BREC

NOMINATION, COMPENSATION, HR AND GOVERNANCE COMMITTEE

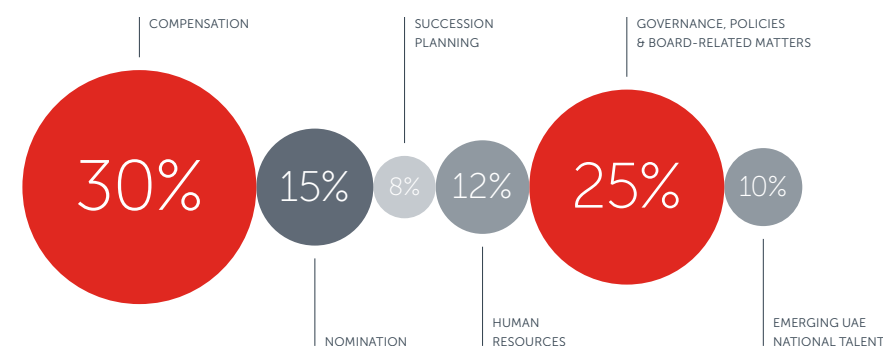
Composition as at 31 December 2020:

H.E. Hussain Al Nowais (Chairman), Saeed Almazrouei,
Carlos Antoine Obeid and Ahmed Al Calily
Secretary: Rami Raslan

OUR REMIT

The NCHRG is responsible for:

- Ensuring the appropriate composition and skillset of the Board and the Board Committees;
- Ensuring the appropriate diversity of the Board;
- Ensuring Independent Directors remain independent on a continuous basis;
- Selecting and appointing Directors;
- Orienting and training new and existing Directors;
- Planning the succession of Board members and Senior Management;
- Selecting and appointing Senior Management;
- Assessing the performance of the Board, individual Directors and Senior Management and overseeing implementation of recommendations arising from the performance review; and
- Developing, applying and reviewing human resources and training policies.



TIME ALLOCATION FOR 2020
NCHRG MEETINGS

Statement from the Chairman of the Nomination, Compensation, HR and Governance Committee

Dear Shareholders,

During 2020, the NCHRG held six (6) meetings, during which the Committee:

- Considered the internal and external assessment of ADCB's remuneration framework and oversaw the implementation of recommendations/action plans arising from this assessment;
- Reviewed and approved ADCB's remuneration framework, including its fixed and variable pay schemes, retention awards and performance recognition;
- Reviewed the Directors' remuneration and fees;
- Received updates on the decisions made at the Board level (or any of its Committees) that may create any potential conflict of interest for Board members;
- Considered the performance evaluation, key performance indicators, and remuneration of the Group Chief Executive Officer;
- Considered the action plan resulting from gap analysis of ADCB's compliance with corporate governance guidelines issued by the UAE Central Bank and Securities & Commodities Authority;
- Reviewed the Board composition, including its diversity, mix of skills, knowledge and experience, in relation to UAE Central Bank and Securities & Commodities Authority governance regulations;
- Reviewed the assessment of the Board's independence, in accordance with the guidelines set by the UAE Central Bank and Securities & Commodities Authority;
- Considered the internal assessment of ADCB's culture and values;
- Considered the results of the Board evaluation survey conducted by ADCB's management and Board;
- Reviewed the annual Corporate Governance Report, including information in ADCB's Annual Report and on ADCB's website, and ensured compliance with UAE Central Bank regulations, standards and best practices;
- Oversaw the professional development schemes and specialist training of the Board;
- Reviewed the Board Secretary's duties and responsibilities;
- Reviewed the strategy and performance of ADCB's Group Human Resources function, training policies and procedures, as well as its approach to Emiratisation;
- Reviewed local, regional and international corporate governance developments and best practice, including policies, procedures, systems, controls and codes of conduct;
- Managed ADCB's long-term succession strategy, assessed succession plans for key executives, and focused on talent management;
- Assessed the Board's selection, appointment and induction processes, and ensured a thorough and rigorous Board induction programme for new Board members;
- Oversaw the process for identifying, assessing and selecting candidates for Senior Management;
- Reviewed and assessed ADCB's Shari'ah governance framework; and
- Reviewed and considered ADCB's corporate governance documentary framework and made necessary amendments thereto, to reflect new governance guidelines and regulations issued by UAE Central Bank and Securities & Commodities Authority.

LOOKING AHEAD TO 2021

During 2020, the Committee continued to focus on ADCB's Emiratisation strategy, ensuring that its Emiratisation framework is effective in developing ADCB's UAE National talent and meeting Emiratisation targets set by the UAE Central Bank.

The Committee continued to monitor the overall development of ADCB's culture to promote a healthy environment that is conducive to organisational success.

The Committee continued to develop KPIs to assess the effectiveness of ADCB's variable remuneration schemes and to ensure that the schemes are aligned with ADCB's strategy, objectives, culture, values and risk appetite. In particular, the Committee assessed the independent review of ADCB's remuneration against market practices and UAE Central Bank Governance Regulations, with minimum identified gaps to be fully complied. The Committee noted that the remuneration schemes remain effective and continue to deliver the desired objectives with respect to ADCB's current size and status.

With regard to corporate governance, the Committee continued to monitor and benchmark ADCB against international best practice for governance. The Committee was pleased that ADCB's corporate governance framework already follows the near entirety of UAE Central Bank Governance Regulation requirements and Securities & Commodities Authority governance regulations and that ADCB should be in full compliance with such regulations in due course.

The Committee considers that it made positive progress during 2020 towards meeting its objectives and responsibilities.

In 2021, the Committee will continue to prioritise the development of ADCB's UAE National talent, focusing on improvements in the recruitment, retention and training of Emiratis.

The Committee will also continue to monitor the bridging of gaps identified through an external review of ADCB's remuneration scheme, and will focus on bringing ADCB's scheme, governance policies and processes into full compliance with the recently issued corporate governance regulations guidelines of both the UAE Central Bank and Securities & Commodities Authority.

Furthermore, the Committee will work together with the BREC to regularly monitor and review compensation plans, outcomes and processes, and to assess whether ADCB's compensation system creates the desired incentives for effective management of risk, capital and liquidity.

The Committee will continue to monitor ADCB's compliance with the recently issued corporate governance regulations guidelines of both the UAE Central Bank and Securities & Commodities Authority and will continue to ensure that ADCB remains on track in this regard.

H.E. Hussain Al Nowais
Chairman of the NCHRG

PRO FORMA CONSOLIDATED FINANCIAL STATEMENT

ABU DHABI COMMERCIAL BANK PJSC PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following pro forma consolidated financial information and related notes ("pro forma financial information") illustrates the effects on the financial performance of the merger between Abu Dhabi Commercial Bank PJSC and its subsidiaries (together referred to as "ADCB") and Union National Bank PJSC and its subsidiaries (together referred to as "UNB") along with the subsequent acquisition of Al Hilal Bank PJSC and its subsidiaries (together referred to as "AHB"). Further, ADCB, UNB and AHB are together referred to as the "Group".

The pro forma financial information consists of the audited consolidated income statement for the year ended December 31, 2020 and unaudited pro forma consolidated income statement for the year ended December 31, 2019 which give effect to the merger and acquisition as if it had occurred on January 1, 2019, the audited consolidated statement of financial position as at December 31, 2020 and as at December 31, 2019.

The purpose of the pro forma financial information is to illustrate the material effects that the ADCB and UNB merger with subsequent acquisition of AHB would have had on the historical consolidated income statement. They are not representative of the financial performance that could have been observed if the indicated business combination had been undertaken at an earlier date.

The presentation of the pro forma financial information of the Group is based on certain pro forma assumptions and has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated income statement addresses a hypothetical situation and, therefore may not give a true picture of the financial performance of the Group. Furthermore, the pro forma financial information is only meaningful in conjunction with the historical audited consolidated financial statements of ADCB for the financial year ended December 31, 2019 and audited consolidated financial statements of ADCB for the financial year ended December 31, 2020.

The pro forma financial information has been compiled based on the accounting policies of the Group as disclosed in its consolidated financial statements for the year ended December 31, 2020.

Under IFRS 3 Business Combinations, ADCB was identified as the acquirer. The Group adopted the acquisition method of accounting for the merger and acquisition, fair valued the assets, liabilities and contingent liabilities acquired at the date of acquisition and reflected the difference between their fair value and the purchase consideration as goodwill.

ABU DHABI COMMERCIAL BANK PJSC
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000
Assets		
Cash and balances with central banks, net	29,601,607	24,904,966
Deposits and balances due from banks, net	21,535,442	23,064,974
Derivative financial instruments	11,146,396	6,789,717
Investment securities	88,205,984	73,442,662
Loans and advances to customers, net	238,975,702	247,833,080
Investment in associates	255,868	407,768
Investment properties	1,643,956	1,693,707
Other assets, net	10,081,413	16,750,208
Property and equipment, net	2,058,575	2,197,571
Intangible assets, net	7,390,291	7,474,342
Assets held for sale	261,067	535,830
Total assets	411,156,301	405,094,825
Liabilities		
Due to banks	8,222,071	5,732,779
Derivative financial instruments	10,855,048	6,949,891
Deposits from customers	251,395,457	262,093,782
Euro commercial paper	4,753,593	2,062,338
Borrowings	65,396,044	51,882,054
Other liabilities	13,927,975	20,302,794
Liabilities related to assets held for sale	4,725	413,395
Total liabilities	354,554,913	349,437,033
Equity		
Share capital	6,957,379	6,957,379
Share premium	17,878,882	17,878,882
Other reserves	9,865,416	9,257,919
Retained earnings	15,895,692	15,544,207
Capital notes	6,000,000	6,000,000
Equity attributable to equity holders of the Bank	56,597,369	55,638,387
Non-controlling interests	4,019	19,405
Total equity	56,601,388	55,657,792
Total liabilities and equity	411,156,301	405,094,825

(*) refer note 53 of the consolidated financial statements for the year ended December 31, 2020

ABU DHABI COMMERCIAL BANK PJSC
PRO FORMA CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 audited AED'000	2019 (*) unaudited AED'000
Interest income	11,650,858	15,560,811
Interest expense	(3,745,602)	(7,148,997)
Net interest income	7,905,256	8,411,814
Income from Islamic financing and investing products	2,414,551	3,126,268
Distribution on Islamic deposits and profit paid to sukuk holders	(536,871)	(1,086,111)
Net income from Islamic financing and investing products	1,877,680	2,040,157
Total net interest income and income from Islamic financing and investing products	9,782,936	10,451,971
Net fees and commission income	1,550,889	1,995,950
Net trading income	555,288	525,773
Net losses from investment properties	(44,972)	(65,409)
Other operating income	627,106	303,676
Operating income	12,471,247	13,211,961
Operating expenses	(4,526,341)	(5,235,072)
Operating profit before impairment charge	7,944,906	7,976,889
Impairment charge	(3,992,912)	(2,654,565)
Operating profit after impairment charge	3,951,994	5,322,324
Share in profit of associates	18,005	22,713
Profit before taxation	3,969,999	5,345,037
Overseas income tax charge	(120,357)	(56,678)
Profit for the year from continuing operations	3,849,642	5,288,359
Loss from discontinued operations	(40,765)	(44,178)
Profit for the year	3,808,877	5,244,181
Attributable to:		
Equity holders of the Bank	3,806,078	5,241,793
Non-controlling interests	2,799	2,388
Profit for the year	3,808,877	5,244,181

(*) includes non-recurring expenses pertaining to integration and transaction costs of AED 153,126 thousand (2019: AED 346,112 thousand)

ABU DHABI COMMERCIAL BANK PJSC
PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

SEGMENTAL INFORMATION — OPERATING SEGMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020 (AUDITED)

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,491,214	2,298,403	2,088,538	27,101	7,905,256
Net income from Islamic financing and investing products	1,056,389	376,320	438,220	6,751	1,877,680
Total net interest income and income from Islamic financing and investing products	4,547,603	2,674,723	2,526,758	33,852	9,782,936
Non-interest income	743,307	971,685	772,710	200,609	2,688,311
Operating income	5,290,910	3,646,408	3,299,468	234,461	12,471,247
Operating expenses	(2,863,964)	(1,199,756)	(284,137)	(178,484)	(4,526,341)
Operating profit before impairment charge	2,426,946	2,446,652	3,015,331	55,977	7,944,906
Impairment charge	(1,383,946)	(2,529,234)	(79,732)	—	(3,992,912)
Operating profit/(loss) after impairment charge	1,043,000	(82,582)	2,935,599	55,977	3,951,994
Share in profit of associates	18,005	—	—	—	18,005
Profit/(loss) before taxation	1,061,005	(82,582)	2,935,599	55,977	3,969,999
Overseas income tax charge	(5,937)	(19,114)	(95,306)	—	(120,357)
Loss from discontinued operations	(25,413)	(15,352)	—	—	(40,765)
Profit/(loss) for the year	1,029,655	(117,048)	2,840,293	55,977	3,808,877

AS AT DECEMBER 31, 2020 (AUDITED)

Total assets	109,176,079	160,736,291	139,518,474	1,725,457	411,156,301
Total liabilities	94,638,057	102,498,044	156,735,846	682,966	354,554,913

FOR THE YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,433,090	2,622,440	2,314,032	42,252	8,411,814
Net income from Islamic financing and investing products	1,111,891	530,715	389,335	8,216	2,040,157
Total net interest income and income from Islamic financing and investing products	4,544,981	3,153,155	2,703,367	50,468	10,451,971
Non-interest income	1,087,697	1,091,700	370,525	210,068	2,759,990
Operating income	5,632,678	4,244,855	3,073,892	260,536	13,211,961
Operating expenses	(3,162,601)	(1,523,406)	(373,364)	(175,701)	(5,235,072)
Operating profit before impairment charge	2,470,077	2,721,449	2,700,528	84,835	7,976,889
Impairment charge	(1,379,442)	(1,218,615)	(56,508)	—	(2,654,565)
Operating profit after impairment charge	1,090,635	1,502,834	2,644,020	84,835	5,322,324
Share in profit of associates	22,713	—	—	—	22,713
Profit before taxation	1,113,348	1,502,834	2,644,020	84,835	5,345,037
Overseas income tax charge	(14,913)	(12,366)	(29,399)	—	(56,678)
Loss from discontinued operations	(16,661)	(27,517)	—	—	(44,178)
Profit for the year	1,081,774	1,462,951	2,614,621	84,835	5,244,181

AS AT DECEMBER 31, 2019 (RESTATED) (*)

Total assets	110,473,825	172,749,335	120,176,843	1,694,822	405,094,825
Total liabilities	85,941,571	128,805,940	134,561,783	127,739	349,437,033

(*) refer note 53 of the consolidated financial statements for the year ended December 31, 2020

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	169	7. Cash and balances with central banks, net	212
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	174	8. Deposits and balances due from banks, net	213
CONSOLIDATED INCOME STATEMENT	175	9. Derivative financial instruments	213
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	176	10. Investment securities	216
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	177	11. Loans and advances to customers, net	218
CONSOLIDATED STATEMENT OF CASH FLOWS	178	12. Investment in associates	218
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS		13. Investment properties	219
1. General information	179	14. Other assets, net	220
2. Application of new and revised International Financial Reporting Standards (IFRSs)	179	15. Property and equipment, net	221
3. Summary of significant accounting policies	181	16. Intangible assets, net	222
3.1 Basis of preparation	181	17. Due to banks	224
3.2 Measurement	181	18. Deposits from customers	224
3.3 Functional and presentation currency	181	19. Euro commercial paper	224
3.4 Use of estimates and judgements	181	20. Borrowings	225
3.5 Basis of consolidation	181	21. Other liabilities	228
3.6 Business combination under common control	183	22. Share capital	229
3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting	184	23. Other reserves	230
3.8 Financial instruments	187	24. Islamic financing	232
3.9 Foreign currencies	192	25. Employees' incentive plan shares, net	232
3.10 Offsetting	193	26. Capital notes	233
3.11 Sale and repurchase agreements	193	27. Interest income	233
3.12 Securities borrowing and lending	193	28. Interest expense	233
3.13 Cash and cash equivalents	193	29. Net fees and commission income	233
3.14 Amortised cost measurement	193	30. Net trading income	234
3.15 Fair value measurement	193	31. Other operating income	234
3.16 Derivatives	194	32. Operating expenses	234
3.17 Leases	194	33. Impairment charge	234
3.18 Treasury shares and contracts on own shares	195	34. Earnings per share	234
3.19 Financial guarantees	195	35. Discontinued operations	235
3.20 Acceptances	195	36. Cash and cash equivalents	236
3.21 Collateral repossessed	195	37. Related party transactions	236
3.22 Investment properties	195	38. Commitments and contingent liabilities	238
3.23 Property and equipment	196	39. Operating segments	239
3.24 Capital work in progress	196	40. Financial instruments	242
3.25 Intangible assets	196	41. Fair value hierarchy	243
3.26 Borrowing costs	196	42. Risk management	245
3.27 Impairment of non-financial assets	197	43. Credit risk management	246
3.28 Employee benefits	197	43.1 Maximum exposure to credit risk	251
3.29 Taxation	198	43.2 Gross exposure	252
3.30 Segment reporting	198	43.3 Expected credit losses	256
3.31 Zakat	198	43.4 Concentration of credit risk	260
3.32 Provisions and contingent liabilities	198	43.5 Credit risk measurement and mitigation policies	263
3.33 Revenue and expense recognition	199	44. Interest rate risk framework, measurement and monitoring	264
3.34 Islamic financing	199	45. Liquidity risk framework, measurement and monitoring	267
4. Critical accounting judgements and key sources of estimation uncertainty	200	46. Market risk framework, measurement and management	272
4.1 Critical judgements in applying the changes in Group's accounting policies	200	47. Operational risk management	274
4.2 Key sources of estimation uncertainty	202	48. Trust activities	276
5. Update on prospective changes in reference rates (Ibor)	203	49. Subsidiaries	277
6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group	205	50. Capital adequacy ratio and capital management	278
		51. Social contributions	281
		52. Legal proceedings	281
		53. Business combinations	281

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF
ABU DHABI COMMERCIAL BANK PJSC

Report on the audit of the consolidated financial statements

OPINION

We have audited the consolidated financial statements of Abu Dhabi Commercial Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OUR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement,

were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Finalisation of purchase price allocation for the merger with Union National Bank PJSC and acquisition of Al Hilal Bank PJSC

DESCRIPTION OF THE KEY AUDIT MATTER

The Bank acquired Union National Bank PJSC and Al Hilal Bank PJSC with effect from 1 May 2019 and accounted for these business combinations using the acquisition method of accounting. The initial accounting of business combination remained incomplete as at 31 December 2019 and the provisional values of the acquired assets and liabilities was reported. The initial purchase price allocation also resulted in recognition of

intangibles assets relating to trademark & license, core deposits and customer relationships amounting to AED 785,000 thousand and provisional goodwill amounting to AED 4,592,872 thousand.

During the year, the purchase price allocation was finalised, and the fair values of the assets and liabilities acquired were adjusted on a retrospective basis and the provisional goodwill was restated to AED 6,734,717 thousand.

INDEPENDENT AUDITOR'S REPORT

The fair values of the assets and liabilities were determined using a range of various complex valuation techniques and methodologies which involved various complex inputs (including those which were unobservable) and required use of various management judgements, estimates and assumptions.

The purchase price allocation was considered a significant risk for the current year audit and was considered as a Key Audit Matter on account of subjectivity involved in the overall valuation process, the quantitative materiality of the transactions and because of the nature, the required specialist knowledge & skill and the overall extent of effort spent on the audit of these transactions and the assessment of the reasonableness of the fair values of the acquired assets and liabilities.

Further information relating to this key audit matter is given in note 53 to the consolidated financial statements.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Our procedures mainly included, but were not limited to the following:

- We assessed the design and implementation of controls over the process of accounting for the business combinations;
- We assessed the competence, objectivity and capabilities of the management's experts used for the purchase price allocation;
- We reviewed the predecessor auditor's working paper to understand the audit procedures performed in respect of the initial allocation of the purchase price paid for the acquisition and merger of the two banks;
- We compared the fair values of the assets and liabilities used in the calculation of goodwill, to the audited

consolidated statement of financial position of the acquirees as at 30 April 2019 prepared under fair value basis of accounting;

- We involved our internal valuation specialists for the assessment of the criterion of the recognition of identified intangible assets and the assessment of the reasonableness of the fair values of the intangible assets acquired including the valuation of residual goodwill as determined by the management;
- We involved our internal real estate specialists for the assessment of the reasonableness of the fair valuation of the real estate properties acquired including fair valuation inputs and assumptions used in the valuation;
- We involved our risk and modelling internal specialist for the review of integration and harmonisation of the Expected Credit Losses (ECL) models of the acquiree with the Bank's ECL models;
- We involved our internal valuation specialists for review of the fair values of acquired loans and review of the underlying estimates and assumptions including related inputs used for the valuation of the same;
- We evaluated the accounting policies adopted by the Group for purchased or originated credit impaired (POCI) financial assets and assessed the adequacy of recognition and measurement of the same. Also, we performed credit review over a selection of acquired POCI loans;
- We evaluated the overall accounting policies adopted by the management to account for business combinations; and
- We assessed the adequacy of the overall disclosures and presentation in the consolidated financial statements with respect to the transactions, the fair valuation and all the related notes.

Estimation uncertainty with respect to measurement of allowance for expected credit losses for loans and advances to customers

DESCRIPTION OF THE KEY AUDIT MATTER

The Group has gross outstanding loans and advances to customers amounting to AED 250,453,230 thousand and holds an allowance for expected credit losses amounting to AED 11,477,528 thousand as at 31 December 2020. Loans and advances, net, approximately represent 58% of the total assets of the Group.

Determination of allowance for expected credit losses on loans and advances to customers is a process which requires significant judgements, estimates and inputs.

Management determines allowance for expected credit losses based on complex models which requires determination of exposure-at-default, loss given default and the probability of default. Other judgements of management relate to determination of the point as to when a Significant Increase in Credit Risk (SICR) on loans and advances to customers is deemed to have occurred and when the same can be regarded as credit impaired. The estimates also include determination of customer ratings based on the risk profiles, appropriate discount rates, estimation of cash flows and forward looking macro-economic variables.

INDEPENDENT AUDITOR'S REPORT

For loans and advances classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default, discount rates and macro-economic inputs.

For loans and advances in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans.

Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following:

- Forward looking information, including variables used in macroeconomic scenarios and their associated weightings,
- Stress in specific sectors and industries, and
- Impact of Government support measures.

Due to the relative subjectivity involved in the estimation process for determination of the allowance for expected credit losses and the ongoing COVID-19 pandemic adding to further estimation uncertainty, complexity in accounting of loans and advances in a business combination, the quantitative materiality of the loans and advances including the use of specialised knowledge and the overall extent of effort spent on the audit in respect of this matter, therefore, this was determined to be a key audit matter for the current year audit.

Further information relating to this key audit matter is given in note 43 to the consolidated financial statements.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

We adopted an audit approach which involved substantive testing of the allowance for ECL in addition to testing the design and operating effectiveness of the controls relevant to the process. Our procedures mainly included, but were not limited to the following:

- We obtained understanding of the overall controls surrounding the ECL assessment including controls related to governance, policies review, IT controls and models validation;
- We obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Group's credit impairment provision policy and the ECL modelling methodology;

- We performed process walkthroughs to identify the controls over ECL process. We tested design and operational effectiveness of the following internal controls relating to the measurement of ECL:

- Review and approval of classification of loans and advances.
- The management regular monitoring of:
 - staging and ECL for loans and advances and Islamic financing receivables;
 - identification of loans displaying indicators of impairment under stage 3;
 - macroeconomic variables & forecast; and
 - performance of ECL models.
- The review and approval of management overlays and the governance process around such overlays.
- The model validation function.

- We also tested the completeness and accuracy of the data on a sample basis used for computation of allowances for expected credit losses;

- We involved our risk and modelling team to review the ECL models used by the Group which included testing of assumptions and forward-looking factors used to determine the exposure at default, loss given default and probability of default;

- We involved our internal IT specialists for the purpose of testing IT application controls relating to application used for computation of the credit impairment process. We evaluated system-based and manual controls over the recognition and measurement of the impairment allowances;

- We performed credit reviews over a selection of customers, derived on quantitative and qualitative criteria and assessed the classification and appropriateness of the loan while assessing the credit worthiness of the customer. This included review of the credit documentation, approvals, collateral valuation reports, and other related documentation. For a sample of customers, we also obtained and recalculated the allowances for expected credit losses;

- We obtained management's specific assessment with respect to individually material exposures, assessed and challenged the assumptions used by the management;

- We reviewed the impact on expected credit losses on account of COVID 19 with specific focus on reassessment of macroeconomic weights, impact of financial stress on various industries and the consideration of Government support measures; and

- We reconciled the overall ECL numbers to the consolidated financial statements and assessed the appropriateness of disclosures made in the consolidated financial statements in this respect.

OTHER INFORMATION

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Articles of Association of the Bank and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors and Board Audit & Compliance Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide

a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 26 January 2020.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Bank has maintained proper books of account;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- v) note 10 to the consolidated financial statements discloses purchases and investments made by the Group during the year ended 31 December 2020;
- vi) note 37 reflects the disclosures relating to material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2020, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would

materially affect its activities or its consolidated financial position as at 31 December 2020; and

viii) note 51 to the consolidated financial statements discloses social contributions made during the year ended 31 December 2020.

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that, based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars, which would materially affect its activities or its consolidated financial statements as at 31 December 2020:

- law of establishment; and
- relevant provisions of applicable laws, resolutions and circulars organising the Bank's operations.

Further, as required by the UAE Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Signed by



Joseph Alexander Murphy
Partner

Ernst & Young
Registration No 492

Date
Abu Dhabi

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Notes	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000	As at December 31 2020 USD'000
Assets				
Cash and balances with central banks, net	7	29,601,607	24,904,966	8,059,245
Deposits and balances due from banks, net	8	21,535,442	23,064,974	5,863,175
Derivative financial instruments	9	11,146,396	6,789,717	3,034,684
Investment securities	10	88,205,984	73,442,662	24,014,698
Loans and advances to customers, net	11	238,975,702	247,833,080	65,062,810
Investment in associates	12	255,868	407,768	69,662
Investment properties	13	1,643,956	1,693,707	447,579
Other assets, net	14	10,081,413	16,750,208	2,744,735
Property and equipment, net	15	2,058,575	2,197,571	560,461
Intangible assets, net	16	7,390,291	7,474,342	2,012,059
Assets held for sale	35	261,067	535,830	71,077
Total assets		411,156,301	405,094,825	111,940,185
Liabilities				
Due to banks	17	8,222,071	5,732,779	2,238,516
Derivative financial instruments	9	10,855,048	6,949,891	2,955,363
Deposits from customers	18	251,395,457	262,093,782	68,444,176
Euro commercial paper	19	4,753,593	2,062,338	1,294,199
Borrowings	20	65,396,044	51,882,054	17,804,531
Other liabilities	21	13,927,975	20,302,794	3,791,989
Liabilities related to assets held for sale	35	4,725	413,395	1,286
Total liabilities		354,554,913	349,437,033	96,530,060
Equity				
Share capital	22	6,957,379	6,957,379	1,894,195
Share premium		17,878,882	17,878,882	4,867,651
Other reserves	23	9,865,416	9,257,919	2,685,929
Retained earnings		15,895,692	15,544,207	4,327,714
Capital notes	26	6,000,000	6,000,000	1,633,542
Equity attributable to equity holders of the Bank		56,597,369	55,638,387	15,409,031
Non-controlling interests		4,019	19,405	1,094
Total equity		56,601,388	55,657,792	15,410,125
Total liabilities and equity		411,156,301	405,094,825	111,940,185

(*) refer note 53

These consolidated financial statements were duly approved by delegated members of the Board of Directors and authorised for issue on January 31, 2021 and signed on its behalf by:

Khaldoon Khalifa Al Mubarak
Chairman

Ala'a Eraiqat
Group Chief Executive Officer

Deepak Khullar
Group Chief Financial Officer

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020 AED'000	2019 (*) AED'000	2020 USD'000
Interest income	27	11,650,858	13,877,686	3,172,028
Interest expense	28	(3,745,602)	(6,364,907)	(1,019,766)
Net interest income		7,905,256	7,512,779	2,152,262
Income from Islamic financing and investing products	24	2,414,551	2,495,966	657,378
Distribution on Islamic deposits and profit paid to sukuk holders	24	(536,871)	(767,609)	(146,167)
Net income from Islamic financing and investing products		1,877,680	1,728,357	511,211
Total net interest income and income from Islamic financing and investing products		9,782,936	9,241,136	2,663,473
Net fees and commission income	29	1,550,889	1,816,162	422,240
Net trading income	30	555,288	460,909	151,181
Net losses from investment properties	13	(44,972)	(66,736)	(12,244)
Other operating income	31	627,106	270,669	170,734
Operating income		12,471,247	11,722,140	3,395,384
Operating expenses	32	(4,526,341)	(4,517,679)	(1,232,328)
Operating profit before impairment charge		7,944,906	7,204,461	2,163,056
Impairment charge	33	(3,992,912)	(2,352,054)	(1,087,098)
Operating profit after impairment charge		3,951,994	4,852,407	1,075,958
Share in profit of associates	12	18,005	17,765	4,902
Profit before taxation		3,969,999	4,870,172	1,080,860
Overseas income tax charge		(120,357)	(40,926)	(32,768)
Profit for the year from continuing operations		3,849,642	4,829,246	1,048,092
Loss from discontinued operations	35	(40,765)	(36,759)	(11,099)
Profit for the year		3,808,877	4,792,487	1,036,993
Attributable to:				
Equity holders of the Bank		3,806,078	4,789,686	1,036,231
Non-controlling interests		2,799	2,801	762
Profit for the year		3,808,877	4,792,487	1,036,993
Basic and diluted earnings per share (AED)	34	0.51	0.71	0.14

(*) refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 AED'000	2019 (*) AED'000	2020 USD'000
Profit for the year	3,808,877	4,792,487	1,036,993
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 23)	(2,675)	32,889	(728)
Net movement in cash flow hedge reserve (Note 23)	(56,191)	171,505	(15,298)
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 23)	280,707	1,277,703	76,424
	221,841	1,482,097	60,398
Items that may not be re-classified subsequently to the consolidated income statement			
Net movement in revaluation reserve of equity instruments designated at FVTOCI (Note 23)	(23,584)	(50,616)	(6,421)
Actuarial (losses)/gains on defined benefit obligation (Note 21)	(31,213)	16,773	(8,498)
	(54,797)	(33,843)	(14,919)
Other comprehensive income for the year	167,044	1,448,254	45,479
Total comprehensive income for the year	3,975,921	6,240,741	1,082,472
Attributable to:			
Equity holders of the Bank	3,973,032	6,235,518	1,081,685
Non-controlling interests	2,889	5,223	787
Total comprehensive income for the year	3,975,921	6,240,741	1,082,472

(*) refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
As at January 1, 2020 (restated)	6,957,379	17,878,882	9,257,919	15,544,207	6,000,000	55,638,387	19,405	55,657,792
Profit for the year	–	–	–	3,806,078	–	3,806,078	2,799	3,808,877
Other comprehensive income for the year (Note 23)	–	–	198,167	(31,213)	–	166,954	90	167,044
Transfer to statutory and legal reserve (Note 23)	–	–	403,846	(403,846)	–	–	–	–
Other movements (Note 23)	–	–	3,236	(36)	–	3,200	–	3,200
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 23)	–	–	–	19,953	–	19,953	–	19,953
Adjustment arising from changes in non-controlling interests	–	–	2,248	(4,138)	–	(1,890)	(18,275)	(20,165)
Dividends paid to equity holders of the Bank (Note 22)	–	–	–	(2,643,804)	–	(2,643,804)	–	(2,643,804)
Zakat for the year (Note 21)	–	–	–	(114,215)	–	(114,215)	–	(114,215)
Capital notes coupon paid (Note 34)	–	–	–	(277,294)	–	(277,294)	–	(277,294)
As at December 31, 2020	6,957,379	17,878,882	9,865,416	15,895,692	6,000,000	56,597,369	4,019	56,601,388
As at January 1, 2019	5,198,231	2,419,999	6,859,271	14,328,042	4,000,000	32,805,543	–	32,805,543
Issue of ordinary shares as consideration for business combinations (Note 22)	1,759,148	15,458,883	–	–	–	17,218,031	–	17,218,031
Addition on business combinations (restated) (Note 53)	–	–	–	–	3,836,500	3,836,500	14,931	3,851,431
Profit for the year	–	–	–	4,789,686	–	4,789,686	2,801	4,792,487
Other comprehensive income for the year (Note 23)	–	–	1,429,059	16,773	–	1,445,832	2,422	1,448,254
Transfer to statutory and legal reserve (Note 23)	–	–	957,936	(957,936)	–	–	–	–
Other movements (Note 23)	–	–	11,653	18	–	11,671	–	11,671
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 23)	–	–	–	23,853	–	23,853	–	23,853
Adjustment arising from changes in non-controlling interests	–	–	–	13	–	13	(749)	(736)
Repayment of Tier 1 capital notes (Note 26)	–	–	–	–	(1,836,500)	(1,836,500)	–	(1,836,500)
Dividends paid to equity holders of the Bank	–	–	–	(2,391,186)	–	(2,391,186)	–	(2,391,186)
Capital notes coupon paid (Note 34)	–	–	–	(265,056)	–	(265,056)	–	(265,056)
As at December 31, 2019 (restated) (*)	6,957,379	17,878,882	9,257,919	15,544,207	6,000,000	55,638,387	19,405	55,657,792

(*) refer note 3.1 for basis of preparation

For the year ended December 31, 2020, the Board of Directors has proposed to pay a cash dividend representing 27% of the paid up capital (Note 22).

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 AED'000	2019 (*) AED'000	2020 USD'000
OPERATING ACTIVITIES			
Profit before taxation including loss from discontinued operations (Note 35)	3,932,929	4,833,454	1,070,767
Adjustments for:			
Depreciation on property and equipment (Note 15)	403,911	367,059	109,968
Amortisation of intangible assets (Note 16)	95,309	64,175	25,948
Net losses from investment properties (Note 13)	44,972	66,736	12,244
Impairment charge	4,277,480	2,611,404	1,164,574
Share in profit of associates (Note 12)	(18,005)	(17,765)	(4,902)
Discount unwind	(692,810)	(232,051)	(188,622)
Net (gains)/losses from disposal of investment securities (Note 31)	(282,701)	820	(76,967)
Interest income on investment securities	(2,093,011)	(2,385,551)	(569,837)
Dividend income (Note 31)	(21,683)	(13,191)	(5,903)
Interest expense on borrowings and euro commercial paper	1,164,863	1,817,590	317,142
Net losses/(gains) from trading securities (Note 30)	4,285	(815)	1,167
Ineffective portion of hedges — (gains)/losses (Note 9)	(31,600)	46,633	(8,603)
Employees' incentive plan expense (Note 25)	3,200	11,671	871
Cash flows from operating activities before changes in operating assets and liabilities	6,787,139	7,170,169	1,847,847
Net movement in balances with central banks	4,043,250	1,011,166	1,100,803
Net movement in due from banks	2,290,345	(449,647)	623,562
Net movement in derivative financial instruments	(185,184)	50,627	(50,418)
Net (purchases)/disposals of trading securities	(4,285)	60,949	(1,167)
Net movement in loans and advances to customers	4,413,604	(1,602,510)	1,201,635
Net movement in other assets	412,195	178,656	112,223
Net movement in due to banks	2,885,832	(1,958,908)	785,688
Net movement in deposits from customers	(10,818,731)	(9,742,010)	(2,945,475)
Net movement in other liabilities	(149,261)	(634,724)	(40,637)
Net cash from/(used in) operations	9,674,904	(5,916,232)	2,634,061
Overseas income tax paid	(67,857)	(33,906)	(18,475)
Net cash from/(used in) operating activities	9,607,047	(5,950,138)	2,615,586
INVESTING ACTIVITIES			
Net proceeds from redemption/disposal of investment securities	27,767,982	30,940,003	7,560,028
Net purchases of investment securities	(40,702,279)	(29,737,663)	(11,081,481)
Interest received on investment securities	2,998,427	2,574,043	816,343
Dividend received from investment securities (Note 31)	21,683	13,191	5,903
Dividend received from associates (Note 12)	9,647	14,194	2,626
Disposal of investment in associate (Note 12)	40,414	—	11,003
Addition on business combinations (Note 53)	—	11,037,392	—
Disposal of investment properties (Note 13)	4,990	6,276	1,359
Net purchases of property and equipment	(215,573)	(273,344)	(58,691)
Net cash (used in)/from investing activities	(10,074,709)	14,574,092	(2,742,910)
FINANCING ACTIVITIES			
Net movement in euro commercial paper (Note 19)	2,675,836	(1,257,754)	728,515
Net proceeds from borrowings (Note 20)	33,895,814	18,012,653	9,228,373
Repayment of borrowings (Note 20)	(22,859,293)	(19,799,050)	(6,223,603)
Interest paid on borrowings and euro commercial paper	(393,368)	(1,236,577)	(107,097)
Payment of lease liabilities	(94,486)	(89,064)	(25,724)
Dividends paid to equity holders of the Bank	(2,643,804)	(2,391,186)	(719,794)
Acquisition of non-controlling interests	(20,165)	—	(5,490)
Repayment of capital notes (Note 26)	—	(1,836,500)	—
Capital notes coupon paid (Note 34)	(277,294)	(265,056)	(75,495)
Net cash from/(used in) financing activities	10,283,240	(8,862,534)	2,799,685
Net increase/(decrease) in cash and cash equivalents	9,815,578	(238,580)	2,672,361
Cash and cash equivalents at the beginning of the year (Note 36)	22,856,273	23,094,853	6,222,781
Cash and cash equivalents at the end of the year (Note 36)	32,671,851	22,856,273	8,895,142

(*) refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. General information

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the emirate of Abu Dhabi, United Arab Emirates (UAE). The Bank and its subsidiaries (together referred to as the "Group") is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services.

On March 21, 2019, the shareholders of ADCB and Union National Bank PJSC ("UNB") approved the merger of two banks pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015 and subsequent acquisition of 100% of issued share capital of Al Hilal Bank PJSC ("AHB") by the combined bank. The merger was effected through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank retained ADCB's legal registrations.

The combined bank issued a mandatory convertible bond ("bond") of AED 1,000,000 thousand to the shareholder of AHB as consideration to acquire the entire issued share capital of AHB. The bond was converted immediately into 117,647,058 ADCB shares.

The effective date of the above merger and acquisition was May 1, 2019.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

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

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Amendments to references to the Conceptual Framework for Financial Reporting.
- Amendment to IFRS 3 regarding the definition of business.
- Amendment to IFRS 7, IFRS 9 and IAS 39 regarding the interest rate benchmark reforms.
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality.
- Amendments to IFRS 16 regarding Covid-19 related rent concession.

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after January 1, 2020.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments clarify that hedge accounting is not discontinued solely because of the IBOR reform and also introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.	January 1, 2021
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023	January 1, 2023
Amendments to IAS 1 'Presentation of Financial Statements' to address classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	January 1, 2023
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	January 1, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	January 1, 2022
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.	January 1, 2022
Annual improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (2011)' relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.	January 1, 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges that were identified after IFRS 17 was published in 2017	January 1, 2023

Management anticipates that these amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

3. Summary of significant accounting policies

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis and in accordance with

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

The consolidated financial statements and related notes for the year ended December 31, 2020 include the results of UNB, AHB and their subsidiaries while the comparative results for the year ended December 31, 2019 do not include their results prior to May 1, 2019 i.e. the date of merger and acquisition.

Certain disclosure notes/numbers have been restated (Note 53), reclassified and rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, financial assets and liabilities at fair value through other comprehensive income and investment properties.

3.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 USE OF ESTIMATES AND JUDGEMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are

recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3.5 BASIS OF CONSOLIDATION

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group").

SUBSIDIARIES

Subsidiaries are entities that are controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of voting rights of an investee, it still has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

CHANGES IN THE BANK'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank. When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary, at the date when control is lost, is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

SPECIAL PURPOSE ENTITIES

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to

affect the amount of its return, the Bank concludes that it controls the SPE.

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

FUNDS UNDER MANAGEMENT

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above.

INVESTMENT IN ASSOCIATES

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements includes the Group's share of the profit or loss and other comprehensive income of investment in associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets, as a single asset by comparing with the recoverable amount (higher of value in use and fair value less cost of disposal). Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Group discontinues the use of equity method of accounting from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation of that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

JOINT ARRANGEMENTS

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation — when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture — when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

3.6 BUSINESS COMBINATION UNDER COMMON CONTROL

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Currently, there is no specific guidance on accounting for common control transactions under IFRSs, therefore the management needs to use judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8.

The Group accounts for business combinations under common control using the acquisition method when there is a commercial substance to the transaction. Under acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date but does not exceed twelve months.

IMPAIRMENT TESTING OF GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (Note 53) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

3.7 CHANGES IN ACCOUNTING POLICIES ON ADOPTION OF IFRS 9 — HEDGE ACCOUNTING

The Group adopted IFRS 9 hedge accounting requirements with effect from January 1, 2020. As a part of transition, the Group carried out a review of all existing hedge relationships under IAS 39 and concluded that all hedge relationships qualified under IFRS 9 after taking into account any rebalancing of the hedging relationship on transition and are regarded as continuing hedging relationships.

The adoption of hedge accounting requirements under IFRS 9 have been implemented on a prospective basis and have not resulted in any adjustments to the Group's opening retained earnings.

ACCOUNTING POLICY TILL DECEMBER 31, 2019

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

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a

documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

FAIR VALUE HEDGES

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

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under cash flow hedge reserve. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to consolidated income statement.

Hedge accounting is discontinued only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in consolidated income statement.

NET INVESTMENT HEDGE

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

HEDGE EFFECTIVENESS TESTING

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

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

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

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

ACCOUNTING POLICY FROM JANUARY 1, 2020

Hedge accounting transition from IAS 39 to IFRS 9

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result, the 80%–125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship by way of rebalancing the hedge on a case-by-case basis, so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in consolidated income statement except when the hedging instrument hedges an equity

instrument designated at FVTOCI in which case it is recognised in other comprehensive income. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in consolidated income statement. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in consolidated income statement instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in consolidated income statement, they are recognised in the same line as the hedged item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to consolidated income statement from that date. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under cash flow hedge reserve. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not

be recovered in the future, that amount is immediately reclassified to consolidated income statement.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in consolidated income statement.

Net investment hedge

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

Hedge effectiveness testing

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

The Group assess economic relationship and effectiveness on its designated hedges by matching critical terms of hedged item and hedging instrument as part of its qualitative assessment. The critical terms matching method replicates the hedge item and hence is not used for those hedge relationships where the hedging derivative includes features that are not present in the hedged item. In such cases, the hedge effectiveness assessment is performed using other quantitative methods and may result in ineffectiveness.

Some of the sources of ineffectiveness include the following:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences
- significant changes in credit risk of the hedging instruments
- the effects of the forthcoming reforms of Interest rate benchmark, because these might take effect at a different time and have a different impact on hedged items and hedging instruments.

The ineffectiveness arising from quantitative assessments is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

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

3.8 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

All financial assets are recognised and derecognised on settlement date basis (other than derivative contracts which are recognised and derecognised on trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Group physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments,

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at the date of initial application of IFRS 9 or at the date of initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI) with dividend income recognised in profit or loss; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group holds equity investments and mutual funds as strategic investments and has elected to carry these investments at FVTOCI with changes in fair value through other comprehensive income.

(a) DEBT INSTRUMENTS AT AMORTISED COST OR AT FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or

commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments, which reflects how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models during each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

(b) FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL are:

- (i) assets with contractual cash flows that are not SPPI; or/and
- (ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

(c) RECLASSIFICATIONS

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

flows are discussed under the accounting policy on modification and derecognition of financial assets.

(d) IMPAIRMENT

The Group recognises allowances for expected credit loss (ECLs) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- deposits and balances due from banks;
- reverse-repo placements;
- debt investment securities;
- loans and advances to customers;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.8(h).

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR. However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, the ECL is the difference between the present value of the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Refer note 43 for more details on measurement of ECL.

(e) CREDIT-IMPAIRED FINANCIAL ASSETS

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- for economic or contractual reasons relating to the borrower's financial difficulty, concessions given to the borrower that would not otherwise be considered; or
- the disappearance of an active market for a security because of financial difficulties

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelyness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(f) PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit impaired financial assets (POCI). The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However,

expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative changes as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and impairment loss where the expected credit losses are greater).

(g) DEFINITION OF DEFAULT

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due for more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. The decision to use cross-default is based on case-by-case assessment of borrower and facility conditions such as collateral and materiality of exposure.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset; for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

(h) SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. Refer note 43 for more details about forward looking information and criteria used to determine significant increase in credit risk.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative assessment. For further details on SICR, refer to note 43.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a backstop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(i) MODIFICATION AND DERECOGNITION OF FINANCIAL ASSETS

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine the substantially different terms the Group considers the qualitative factors (i.e. contractual cash flows after modification, change in currency or counterparty, interest rates, maturity, covenants) and a quantitative assessment (i.e. compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, discounted at the original effective interest).

In case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the

modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the credit rating at initial recognition and the original contractual terms; with credit rating at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to retained earnings.

(j) PRESENTATION OF ALLOWANCE FOR ECL

Loss allowances for ECL are presented in the consolidated financial statements as follows:

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements, investment

securities carried at amortised cost and other financial assets): as a deduction from the gross carrying amount of the assets;

- for debt instruments measured at FVTOCI: as part of revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial liabilities at initial recognition depends on the purpose and management's intention for which the financial liabilities were incurred and their characteristics.

Financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the liability).

Financial liabilities are subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss. Gains and losses on financial liabilities, other than derivative instruments, designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes

in the credit risk of the liability are also presented in the profit or loss.

DERECOGNITION OF FINANCIAL LIABILITIES

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred is recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised using EIR method over the remaining term of the modified liability.

3.9 FOREIGN CURRENCIES

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

- (a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;
- (b) income and expenses at the average rates of exchange for the reporting period; and
- (c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

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

3.10 OFFSETTING

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

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

3.11 SALE AND REPURCHASE AGREEMENTS

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase

price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.12 SECURITIES BORROWING AND LENDING

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3.13 CASH AND CASH EQUIVALENTS

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

3.14 AMORTISED COST MEASUREMENT

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.15 FAIR VALUE MEASUREMENT

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous

market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are

managed by the Group on the basis of the net exposure to either the market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in note 41. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.16 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

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

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under 'net gain on dealing in derivatives' (Note 30).

3.17 LEASES

THE GROUP AS LESSEE

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset. For these leases, the Group recognises the lease

payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the consolidated income statement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the period of lease term or useful life of the underlying asset whichever is shorter. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as per the Group's impairment policy for non-financial assets.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease component, and instead account for any lease and associated non-lease component as a single arrangement.

The Group has presented right of use asset within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

THE GROUP AS LESSOR

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the consolidated income statement on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.18 TREASURY SHARES AND CONTRACTS ON OWN SHARES

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

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

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

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

3.20 ACCEPTANCES

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

3.21 COLLATERAL REPOSSESSED

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.22 INVESTMENT PROPERTIES

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale

in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer note 3.15 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

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

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.23 PROPERTY AND EQUIPMENT

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

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

Estimated useful lives are as follows:

Freehold properties	15 to 40 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment, software and accessories	4 to 10 years

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

3.24 CAPITAL WORK IN PROGRESS

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

3.25 INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately or in a business combination (other than goodwill) are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

3.26 BORROWING COSTS

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready

for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

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

3.27 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.28 EMPLOYEE BENEFITS

(i) Employees' end of service benefits

(a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in

respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income statement, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

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

(b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension contributions are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund for UAE citizens in accordance with UAE Federal Law No. 7 of 1999 and to respective pension authorities for other employees including GCC Nationals as per applicable laws.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

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

(iv) Employees' incentive plan shares

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

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

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

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

3.29 TAXATION

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date

on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.30 SEGMENT REPORTING

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

Refer to note 39 on Business Segment reporting.

3.31 ZAKAT

Zakat is only paid on behalf of shareholders in jurisdictions where zakat payment is made mandatory by the regulations of the jurisdictions. Such payment is made in accordance with the regulations of the jurisdictions.

3.32 PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.33 REVENUE AND EXPENSE RECOGNITION

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

(i) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVTPL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments classified as held for trading or those measured or designated at FVTPL is recognised in 'Net gains from trading securities' under 'Net trading income'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

(iii) Fee and commission income

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

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

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

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

(b) Fee income from providing transaction services

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

3.34 ISLAMIC FINANCING

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

MURABAHA FINANCING

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

IJARA FINANCING

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

MUSHARAKA

Musharaka is an Islamic contract in which two parties (Islamic financial institution and its customer) pool their respective funds to form a partnership. In Musharaka both parties are involved in management of the business/partnership. Profit is shared on the basis of pre-agreed ratio and loss is shared in the ratio of capital contribution. It's not mandatory in Musharaka for all parties to participate

in the management of business. Practically, this form of investment is used by the Islamic financial institution to finance its customers.

MUDARABA

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

SALAM

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

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

WAKALA

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

SUKUK

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

4.1 CRITICAL JUDGEMENTS IN APPLYING THE CHANGES IN GROUP'S ACCOUNTING POLICIES

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

BUSINESS MODEL ASSESSMENT

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

IMPAIRMENT LOSSES

- Significant increase of credit risk: ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflect the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer note 43 for more details on ECL.

VALUATION OF FINANCIAL INSTRUMENTS

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement

to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

FAIR VALUATION OF INVESTMENT PROPERTIES

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income, etc.

The fair value movements on investment properties are disclosed in more detail in note 13.

CONSOLIDATION OF FUNDS

The changes introduced by IFRS 10 'Consolidated Financial Statements' require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its

power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

LEASE ACCOUNTING UNDER IFRS 16

The following are the critical judgements in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor).

TAX POSITIONS

The income tax positions taken are considered by the Group to be supportable and are intended to withstand challenge from tax authorities. However, it is acknowledged that these positions are uncertain and include interpretations of complex tax laws which could be disputed by tax authorities. Evolving insights, for example following final tax assessments for prior years, can result in additional tax burdens or benefits, and new tax risks may arise.

The Group judges these positions on their technical merits on a regular basis using all the information available (legislation, case law, regulations, established practice, authoritative doctrine as well as the current state of discussions with tax authorities, where appropriate). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities, based on all relevant information. The liability is calculated taking into account the most likely outcome or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position in view of reflecting the likelihood of an adjustment being recognized upon examination. These estimates are based on facts and circumstances existing at the end of the reporting period. The tax liability and income tax expense include expected penalties and late payment interests arising from tax disputes.

Management has used its best estimate of the correct value of liability to recognize in each case, which includes a judgement on the length of the future time period to use in such assessments.

4.2 KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Exposure at default (EAD) — The EAD over lifetime of a financial asset is modelled taking into account expected repayment profile. We apply specific credit conversion factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as expected amount of credit exposure of counter party at the time of default. In the instance where a transaction involves an unfunded exposure, CCF models are applied in order to estimate amount of unfunded exposures are drawn down in case of default. The calibration of such parameters (CCFs) are based on internal historical data and consider counterparty and product type specifics.

During the year, the Bank recalibrated its CCFs used in the computation of EAD in relation to the ECL against the Bank's unfunded letters of guarantees. The change in accounting estimate was based on management's analysis of the historical conversion ratio of guarantees issued by the Bank over one full economic cycle while considering a potential increase in the conversion ratio in short to medium term due to the impact of Covid-19 on the economy.

- Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

Goodwill is tested at least annually for impairment, along with the intangible assets and other assets of the Group's cash-generating units.

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use of the business being tested for impairment and of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, taking into account the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process, and a suitable discount rate in order to calculate present value.

LEASE ACCOUNTING UNDER IFRS 16

The following are key estimations that the management has used in the process of applying the Group's accounting policies for IFRS 16 and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- determination of the appropriate rate to discount the lease payments;
- assessment of whether a right-of-use asset is impaired.

FAIR VALUATION OF ASSETS ACQUIRED AND LIABILITIES ASSUMED IN BUSINESS COMBINATION

As stated in note 3.6 above, the identifiable assets acquired and the liabilities assumed in business combination are recognised at their fair value. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

5. Update on prospective changes in reference rates (Ibor)

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform Interbank Offer Rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has significant exposure to IBORs through its financial instruments that will be either replaced or reformed as part of this market-wide initiative. There is significant uncertainty over the timing and the methods of transition across the jurisdictions within which the Group operates. The Group anticipates that IBOR reform will have significant risk management and accounting impacts across all of its business lines. The Group has established a cross-functional IBOR Committee to manage its transition from IBORs to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Management Executive Committee (MEC) and collaborates with other business functions as needed.

The IBOR Committee is working closely with underwriting departments across the Group for new lending products indexed to the alternative nearly risk-free rate in impacted jurisdictions. Transition away from IBORs to the risk free "overnight reference rate" regime will affect the pricing of deposits, loans, hedging instruments and floating rate debt securities and the valuation of collateral. The following risk free rates (RFRs) will replace IBORs in their respective currencies:

- USD — SOFR (Secured overnight funding rate)
- GBP — SONIA (Sterling overnight index average)
- EUR — ESTER (Euro short term rate)
- CHF — SARON (Swiss average rate overnight)
- JPY — TONAR (Tokyo overnight average rate)

FINANCIAL ASSETS AND LIABILITIES

The Group has exposure to LIBOR and other IBORs through its floating-rate financial assets and liabilities. The reform of IBORs has included a change to the underlying calculation methodology but it is not expected that the IBOR benchmark rates will be replaced by RFRs until after 2021.

Wholesale Banking Group has completed their review on assets and in-scope bilateral facilities (against loan-linked ISDA administered by ADCB Treasury). Treasury Group has completed a review of investment securities (bonds) and legacy derivatives. Legacy derivatives that reference IBORs will transition to the appropriate RFR either through adherence to ISDA Benchmark fallback protocol or by bi-lateral repapering. A review of treasury loans has been completed and all new treasury loans incorporate Loan Market Association (LMA) IBOR fallback provisions. Further, the Committee took a decision not to originate floating rate commercial paper or treasury deposits maturing beyond 2021. Consumer Banking Group does not have any significant exposure, however, leverage and overdraft products are under analysis with business and credit teams for any potential impact.

The Group has floating-rate liabilities indexed to IBORs of the currency of the liability. There have been no modifications to financial liabilities during the years ended December 31, 2020 and December 31, 2019 as a result of IBOR reform. However, the IBOR Committee and the Group's treasury and legal teams will manage the transition of the Group's floating rate bond financial liabilities at the appropriate time.

DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES AND HEDGE ACCOUNTING

The Group holds derivatives for trading purposes (predominantly related to offering hedging solutions to customers) and for risk management purposes designated

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

as hedges against eligible assets and liabilities (Note 9). The interest rate and cross currency interest rate derivative instruments have floating legs that are indexed to various IBORs. The Group's interest rate and cross currency derivative instruments are governed by the industry standard International Swaps and Derivatives Association (ISDA) Master Agreements that incorporate by reference the 2006 ISDA definitions. 2006 ISDA definitions provide for the basic framework for the documentation of bilaterally negotiated interest rate and currency derivative transactions. The ISDA has been working alongside market participants on initiatives to identify fall backs for derivatives contracts which are governed by ISDA-published terms and which reference certain key IBORs. On October 23, 2020, ISDA launched the IBOR fall backs supplement, a supplement to the 2006 ISDA definitions, and the IBOR fall backs protocol. These documents will take effect on January 25, 2021. IBOR fall backs protocol will enable adhering parties to amend legacy derivative transactions to include the updated rates and fall backs. The Group has adhered to the IBOR fall backs protocol. Derivative transactions incorporating the 2006 ISDA definitions that are entered into by the Group on or after January 25, 2021 will automatically include the new fall back provisions as set out in the IBOR fall backs supplement without any further action needed, regardless of whether parties adhere to the IBOR fall backs protocol or not.

In accordance with the transition provisions, the Group has adopted the amendments to IFRS 9 and IFRS 7, retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

In summary, the reliefs provided by the amendments and applied by the Group are as follows:

- When considering the 'highly probable' requirement, the Group has assumed that the IBOR interest rates upon which hedged items are based do not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the IBOR interest rates upon which the

cash flows of the hedged items and the interest rate swaps that hedge them are based are not altered by IBOR reform.

- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.
- The Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis.

The Group is materially exposed to certain (or mainly to US dollar Libor) benchmark however it has not incorporated any changes in assumptions for effected benchmark into its expectation or calculation as the timing and effect of the IBOR reform is still uncertain.

Transition approach will be different considering the product and counterparty involved, the derivative contracts facing central counterparties will follow the market wide standardized approach to these reforms while bilateral contracts will be negotiated with the counterparty on case by case basis.

IBORs are 'forward-looking' term rates and published tenor wise, whereas RFRs are typically 'backward-looking' rates, as they are based upon overnight rates from actual transactions, and are therefore published at the end of the overnight borrowing period. Furthermore, IBORs include a credit spread over the RFR. Therefore, to convert existing contracts and agreements to RFRs, adjustments for term and credit spread may need to be applied to RFRs to enable the two benchmarks to be economically equivalent upon transition.

If a hedging relationship impacted by IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency; and
- differences in maturities or timing of cash flows of the swap and the notes.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations for when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has applied its best judgement to analyse market expectations when determining the fair value of the hedging instrument and present value of estimated cash flows of the hedged item.

The Group's risk exposure is directly affected by IBOR reform, across both its cash flow hedges and fair value hedges as IBOR-linked derivatives are designated as a hedge instrument against its fixed and floating interest rate financial assets and liabilities.

The following table summarises the significant hedging notional values impacted by the IBOR reform as at December 31, 2020:

Current benchmark	Convergence to RFR	AED '000		Total	Hedge item
		Fair value hedges	Cash flow hedges		
USD Libor	Secured overnight financing rate (SOFR)	72,937,063	953,142	73,890,205	Fair value hedged items include fixed rate investments in debt securities, borrowings and loans and advances while cash flow hedged items include floating rate borrowings and investment securities.
All other IBORs	Various other RFRs	86,279	1,434,375	1,520,654	Fair value hedged items include fixed rate customer deposits, debt securities while cash flow hedged items include floating rate loans and advances.

SPECIFIC POLICIES APPLICABLE FROM JANUARY 1, 2020 FOR HEDGES DIRECTLY AFFECTED BY IBOR

On initial designation of the hedging relationship, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated. For the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.

The Group will cease to apply the amendments to its effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group

The Covid-19 pandemic has caused an unprecedented human and health crisis. The measures necessary to contain the virus have triggered an economic downturn. Since the pandemic's outbreak, prices of assets have fallen sharply, and in some cases endured decline of 30 percent or more at the trough. While some countries have eased the lockdown, the relaxation has been gradual and, in some cases, they have had to re-impose stricter measures to deal with renewed outbreaks. Credit spreads have jumped and volatility has spiked to levels reminiscent of the global financial crisis with significant deterioration in market liquidity.

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programmes besides infusing significant liquidity into the economy. By effectively stepping in as "buyers of last resort" and helping contain upward pressures on the cost of credit, central banks are ensuring that households and firms continue to have access to credit at an affordable price. To date, central banks have announced plans to expand their provision of liquidity — including through loans and asset purchases.

In response to this crisis, Central Bank of the UAE (CBUAE) has instituted measures in the UAE to support businesses and households. These measures are expected to remain

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

in place till the date announced by CBUAE as noted below. Some of the measures announced by CBUAE under Targeted Economic Support Scheme (TESS), which would mitigate the impact of Covid-19 are discussed below:

A. TEMPORARY RELIEF TO CUSTOMERS

Temporary relief from the payments of principal and/or interest/profit on outstanding loans for all Covid-19 affected private sector corporates, small and medium enterprises and individuals domiciled in UAE. To incentivize UAE banks to participate in the TESS programme:

- CBUAE has granted an extension of AED 50 billion capital buffer for the entire banking industry till December 31, 2021. This will facilitate additional lending capacity of banks.
- CBUAE has granted an extension of the zero cost funding facility against eligible collateral until June 30, 2021. The value of the zero cost funding programme is AED 50 billion.

B. LIQUIDITY AND CAPITAL STIMULUS PACKAGE

The effects of this crisis on the liquidity/funding and capital risks and profile of the banking system are evolving and subject to ongoing monitoring, as governments around the world intervene to provide various stimulus package to mitigate the adverse effects of the crisis. CBUAE has introduced the following stimulus package relating to liquidity and capital requirements to support the banking industry in the UAE through this disruption and to enable banks to fully pass on the TESS related benefits to end customers:

- CBUAE has a reduced requirement of maintaining minimum liquidity coverage ratio (LCR) of 70% (from 100%), minimum net funding ratio (NSFR) of 90% (from 100%) and minimum eligible liquid assets ratio (ELAR) of 7% (from 10%). The overall release of regulatory liquidity buffers is estimated at AED 95 billion. This liquidity can be used to compensate for the effect of posting collateral required by the TESS programme.
- To improve liquidity within UAE banking system, CBUAE halved the reserve requirement for demand deposit of all banks from 14% to 7% which is expected to release AED 61 billion additional liquidity for the UAE banking sector. The aggregate value of all the above capital and liquidity measures adopted by CBUAE is AED 256 billion which approximates to 17% of UAE GDP.
- To counter volatility in financial markets and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning compared to December 31, 2019 will be partially added back to regulatory capital while

IFRS 9 provisions will be gradually phased-in during a five-year period, ending December 31, 2024.

- CBUAE has allowed banks to tap into capital conservation buffer and domestic systemically important banks buffer (D-SIB) to the extent of 60% and 100% respectively till December 31, 2021.
- Planned implementation of certain Basel III capital requirements will be postponed to March 31, 2021.

Although the measures mentioned above are not exhaustive and may not fully counteract the impact of Covid-19 in the short run, they will mitigate the long-term negative impact of the pandemic.

In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements through its Liquidity Contingency Plan and stress tests reflecting the current economic scenarios. As at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

IASB GUIDANCE AND JOINT GUIDANCE ISSUED BY CENTRAL BANK OF THE UAE, DUBAI FINANCIAL SERVICES AUTHORITY (THE "DFSA") AND THE FINANCIAL SERVICES REGULATORY AUTHORITY (THE "FSRA")

The Bank recognises any changes made to ECL to estimate the overall impact of Covid-19 will be subject to very high levels of uncertainty as little reasonable and supportable forward-looking information is currently available on which to base those changes. This makes it even more important that ECL process remains robust since any significant overstatement of ECL could lead to unnecessary tightening in credit conditions which may not have a salutary economic impact. Accordingly, IASB and regulatory bodies in the UAE have proposed certain measures to manage the impact of economic uncertainty on ECL while remaining compliant with IFRS.

On March 27, 2020, the IASB issued a guidance note on accounting for expected credit losses in the light of current uncertainty arising from the Covid-19 pandemic. The guidance note states that IFRS 9 requires the application of judgement and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment. Entities should not continue to apply their existing ECL methodology mechanically.

On April 22, 2020, CBUAE issued guidance on treatment of IFRS 9 ECL in context of the Covid-19 crises. The guidance requires banks to identify customers who are temporarily and mildly impacted by Covid-19 (Group 1) and those who are significantly impacted by Covid-19 in the long term (Group 2). The guidance also requires the Bank to

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

review the credit conversion factor, staging and run scenarios to ascertain the impact of the macro-economic variables. ADCB has taken necessary steps to comply with this guidance. On October 27, 2020 CBUAE has issued further guidelines that required moving all accounts that are significantly impacted by Covid-19 (Group 2) to stage 2. The revised guidelines required banks to disclose all deferrals provided to the all customers irrespective of whether these deferrals were provided under TESS scheme or outside of the TESS scheme.

Further, to assess significant increase in credit risk (SICR) IFRS 9 requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument. Both the assessment of SICR and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. Entities are required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of Covid-19 and the significant government support measures being undertaken.

In line with the IASB guidance, CBUAE, DFSA and FSRA introduced a joint guidance which stipulates the following considerations while measuring ECLs:

- a temporary moratorium on payments, or a waiver of a breach of covenant, in itself is not considered an SICR trigger in the current environment. This would also be the case even if a moratorium results in a loss for the Bank (e.g. if interest payments are reduced or waived), if it is provided irrespective of the borrowers' individual circumstances.
- due to the current unusual circumstances the 30 days past due (DPD) backstop assumption in some cases has been rebutted.
- the Bank distinguishes between obligors whose long-term credit risk is unlikely to be significantly affected by Covid-19 from those who may be more permanently impacted. Obligors operating in certain industries are likely to be more affected compared to others. These factors are considered to determine whether there is a case of SICR.
- most modifications of contracts as a result of Covid-19 are not substantial modifications.

IMPACT OF COVID-19 ON ADCB GROUP

ADCB's corporate portfolio is primarily UAE focused, therefore the Central Bank TESS programme directly aids most of the corporate portfolios with the exception of government-related enterprises/government debt which we believe will be able to manage this crisis based on their ownership and economic importance to the country. All customers who have availed of any deferral, have been classified as Group 1 or Group 2 as per the CBUAE definitions. Customers have been provided deferrals under TESS and the subsequent repayment/account performance post the end of the deferral period is monitored.

ADCB's retail portfolio is expected to see more immediate term impact on account of reduced pay/job-losses/cash flow stress in businesses. ADCB is fully committed to help these customers through this turbulent period as directed by CBUAE. Small and medium enterprises (SME) customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

Al Hilal Bank, a fully owned subsidiary of ADCB, has a retail portfolio primarily of UAE nationals employed in government owned entities. This is a segment that we believe will be insulated from job cuts and salary reductions, and as such the impact on this portfolio would be considerably muted.

IMPACT ON ECL

ADCB's IFRS 9 framework is implemented and is based on robust internal models. ADCB's Group Risk Management has independent model development and model validation teams who oversee the re-development/calibration and model validations on policy defined frequencies. ADCB also relies on external model validation for ensuring the ECL outputs are relevant and reflect the latest portfolio risk composition.

For both 2020 numbers and projections, ADCB has updated its macro-economic variables by incorporating changes to economic scenarios, reduction in oil prices, drop in real estate prices and a negative GDP growth. These changes ensures that the ECL charge fully reflects the current prevailing macro-economic scenario. The impact of these changes is included in the net impairment charges of AED 3,993 million.

Given that ADCB's portfolio is largely UAE based, all the government support measures will help mitigate the impact of ECL on its portfolio.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

GOVERNANCE UPDATES RELATED TO TESS

The Group has implemented robust governance around TESS deferrals. TESS deferrals follow a credit approval process and are approved after proper evaluation of customer needs, past performance and impact of Covid-19 on customer's credit worthiness. In line with the Joint Guidance, the risk policy team has issued guidelines to ensure that TESS deferrals adhere to the prescribed

CBUAE rules. All deferrals are tracked by credit operations with adequate checks and balances. TESS deferrals are monitored on a weekly basis by Group Risk division to ensure compliance with the CBUAE rules and Joint Guidance. The decisions on macro-economic adjustments, grouping, etc. are all documented via policies and approved by the relevant risk committees.

PAYMENT DEFERRALS

The Group has drawn AED 8,881,745 thousand of the TESS related funds allocated to it, of which AED 2,864,373 thousand has been repaid up to the date of approval of these financial statements. Further, the Group has passed on AED 11,018,457 thousand to the customers by means of payment deferrals under TESS, of which AED 4,819,124 thousand has been subsequently settled by customers as at December 31, 2020. Payment deferrals were given to corporate, SME and retail customers in line with the CBUAE regulations ensuring that the customers impacted by Covid-19 are supported by temporary payment deferrals.

Summary of payment deferrals (including TESS and other deferrals):

	As at December 31, 2020		
	Wholesale banking AED'000	Retail banking AED'000	Total AED'000
TESS deferrals extended during the year	9,753,239	1,265,218	11,018,457
Other deferrals extended during the year	1,827,494	356	1,827,850
Total payment deferrals extended during the year	11,580,733	1,265,574	12,846,307
Less: Payment deferrals repaid during the year	(4,867,847)	(500,762)	(5,368,609)
Payment deferrals outstanding	6,712,886	764,812	7,477,698

Summary of payment deferrals, exposure and outstanding impairment allowance by product:

	As at December 31, 2020		
	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Overdrafts (corporates)	52,645	977,135	1,157
Retail loans	764,813	5,823,365	383,325
Corporate loans	5,891,809	53,308,851	993,107
Other facilities	768,431	770,722	16,369
Total	7,477,698	60,880,073	1,393,958

Product wise classification of retail loans:

	As at December 31, 2020		
	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Personal loans (including credit cards)	722,781	4,667,234	344,432
Mortgage loans	24,625	998,427	29,726
Auto loans	17,407	157,704	9,167
Total	764,813	5,823,365	383,325

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Summary of payment deferrals, exposure and outstanding impairment allowance by economic sector:

	As at December 31, 2020		
Economic activity sector	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Energy	71,560	405,429	5,125
Trading	620,201	831,193	14,866
Real estate investment	3,025,303	24,471,305	497,902
Hospitality	735,534	8,189,391	238,292
Transport and communication	88,710	598,206	9,879
Personal	941,315	6,095,300	382,810
Government and public sector enterprises	398,331	2,524,793	960
Financial institutions (*)	719,243	9,202,981	68,479
Manufacturing	105,620	541,688	148,724
Services	57,435	333,912	8,007
Others	714,446	7,685,875	18,914
Total	7,477,698	60,880,073	1,393,958

(*) includes investment companies

Joint Guidance requires that all customers who avail payment deferrals are to be grouped into two categories:

GROUP 2

Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.

GROUP 1

Customers that are temporarily and mildly impacted by the Covid-19 crisis. For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities are not expected to be materially affected. These customers are expected to face liquidity constraints without substantial changes in their creditworthiness.

To comply with the above requirements, the Group reviewed the top 70% of its wholesale exposures on a case-by-case basis to ensure the correct classification of Group 1 and 2 exposures. For the remainder of the portfolio, the Group has adopted an approach based on industry sector, current internal rating and loan-to-value criteria for asset backed financing. The grouping policy was reviewed and approved by the Management Risk & Credit Committee of the Bank.

Based on the above considerations, customers availing payment deferrals have been categorised as follows:

			As at December 31, 2020		
Segment	Group	Number of customers	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking (*)	Group 1	643	5,021,176	48,890,463	287,714
	Group 2	203	1,691,709	6,166,245	722,919
		846	6,712,885	55,056,708	1,010,633
Retail banking	Group 1	18,483	352,210	4,945,479	43,380
	Group 2	12,864	412,603	877,886	339,945
		31,347	764,813	5,823,365	383,325
Total		32,193	7,477,698	60,880,073	1,393,958

(*) for the purpose of this disclosure, high net worth clients and their businesses are included in wholesale banking

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Group has aligned its internal policies on ECL and staging in line with 'Joint Guidance Note to Banks and Finance Companies on treatment of IFRS 9 expected credit loss provisions in the UAE in the context of the Covid-19 crisis' ("Joint Guidance") dated April 4, 2020.

The Group has taken the following steps to ensure that the ECL practices remain prudent in light of the payment deferrals provided to the customer.

CHANGES IN MACRO-ECONOMIC VARIABLES

The Group runs ECL models based on forward looking assumptions. However, based on the CBUAE directives, latest macro-economic variables and projections have been updated in ECL models to reflect the current economic situation. In addition to this, the Bank continues to hold overlays that has been set aside to cover Covid-19 impact.

REVIEW OF EXPOSURE AT DEFAULT (EAD)

The Group has reviewed the credit conversion factors (CCF) of unfunded exposures and the likelihood of these facilities being drawn. Further, the Group has increased the CCF of unutilised overdrafts and the revolving credit facilities of its wholesale portfolio as part of this review.

PROBABILITY OF DEFAULT (RATING CHANGES)

The Group continues to rate its customers using its internal models and customers with weak financial profiles will have rating downgrades thereby impacting their probability of default (PD) and ECL. This is to ensure any additional ECL required due to PD deterioration is taken into the ECL calculation.

Average PD and loss given default (LGD) of customers availing deferral benefits:

Group	Weighted average PD		Weighted average LGD	
	Wholesale banking	Retail banking	Wholesale banking	Retail banking
Group 1	3.51%	1.84%	17.59%	63.25%
Group 2	24.83%	52.16%	21.32%	60.40%
Segment average	5.90%	9.33%	18.01%	62.82%

MIGRATION OF STAGING

The CBUAE regulations allows the staging of the Group 1 customers to remain unchanged for the duration of the crisis. Similarly, the Group 2 customers will not be normally migrated to stage 3 based on their financial performance as the impact of Covid-19 is not expected to be permanent in nature. The Bank has applied these principles, however some of the customer's stage has been downgraded post the end of the deferral period. In addition, as per the latest CBUAE guidelines, Group 2 customers who were under stage 1 have been migrated to stage 2.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The stage wise classification of customers availing payment deferrals (by business segment):

Segment	Stage	Group	As at December 31, 2020		
			Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking	Stage 1	Group 1	4,736,298	46,919,251	206,500
		Group 2	—	—	—
			4,736,298	46,919,251	206,500
	Stage 2	Group 1	284,878	1,971,212	81,214
		Group 2	1,398,193	5,446,285	661,627
			1,683,071	7,417,497	742,841
	Stage 3	Group 1	—	—	—
		Group 2	273,125	501,597	57,628
			273,125	501,597	57,628
	POCI	Group 1	—	—	—
		Group 2	20,391	218,363	3,664
			20,391	218,363	3,664
Total			6,712,885	55,056,708	1,010,633
Retail banking	Stage 1	Group 1	352,210	4,945,479	43,380
		Group 2	—	—	—
			352,210	4,945,479	43,380
	Stage 2	Group 1	—	—	—
		Group 2	312,533	701,966	243,029
			312,533	701,966	243,029
	Stage 3	Group 1	—	—	—
		Group 2	100,070	175,920	96,916
			100,070	175,920	96,916
Total			764,813	5,823,365	383,325
Grand total			7,477,698	60,880,073	1,393,958

Stage migration of exposure since January 1, 2020, of customers benefiting from payment deferrals (by business segment):

Wholesale banking	Stage 1 AED'000	Stage 2 AED'000	Stage 3 (*) AED'000	POCI AED'000	Total AED'000
As at January 1, 2020	46,481,920	5,871,434	253,732	139,318	52,746,404
- Transfer from stage 1 to stage 2	(2,062,953)	2,062,953	—	—	—
- Transfer from stage 1 to stage 3	(121,410)	—	121,410	—	—
- Transfer from stage 2 to stage 1	855,062	(855,062)	—	—	—
- Transfer from stage 2 to stage 3	—	(40,362)	40,362	—	—
- Transfer from stage 3 to stage 2	—	36,618	(36,618)	—	—
Changes in exposure within same stage	1,766,632	341,916	122,711	79,045	2,310,304
As at December 31, 2020	46,919,251	7,417,497	501,597	218,363	55,056,708

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Retail banking	Stage 1 AED'000	Stage 2 AED'000	Stage 3 (*) AED'000	POCI AED'000	Total AED'000
As at January 1, 2020	5,169,588	260,962	13,912	—	5,444,462
- Transfer from stage 1 to stage 2	(472,014)	472,014	—	—	—
- Transfer from stage 1 to stage 3	(116,498)	—	116,498	—	—
- Transfer from stage 2 to stage 1	97,807	(97,807)	—	—	—
- Transfer from stage 2 to stage 3	—	(20,887)	20,887	—	—
- Transfer from stage 3 to stage 2	—	12,776	(12,776)	—	—
Changes in exposure within same stage	266,596	74,908	37,399	—	378,903
As at December 31, 2020	4,945,479	701,966	175,920	—	5,823,365

(*) as per CBUAE guidelines, the Group has extended payment deferrals under TESS only to stage 1 and stage 2 loans. Certain exposures had been subsequently migrated to stage 3 in exceptional circumstances where customer's debt servicing capacity was expected to be permanently impaired

The internal rating classification of customers availing payment deferrals as at December 31, 2020:

Internal rating	Group 1			Group 2			Total		
	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Grades 1–4	1,034,679	14,316,154	5,114	72,000	340,239	870	1,106,679	14,656,393	5,984
Grades 5–6	3,516,261	31,476,312	166,409	536,148	3,211,019	449,325	4,052,409	34,687,331	615,734
Grade 7	402,295	2,790,499	107,941	778,077	1,847,316	201,977	1,180,372	4,637,815	309,918
Grades 8–10	—	—	—	291,519	710,605	56,504	291,519	710,605	56,504
Unrated	420,151	5,252,977	51,630	426,568	934,952	354,188	846,719	6,187,929	405,818
Total	5,373,386	53,835,942	331,094	2,104,312	7,044,131	1,062,864	7,477,698	60,880,073	1,393,958

7. Cash and balances with central banks, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Cash on hand	1,682,035	1,830,228
Balances with central banks (*)	17,608,390	2,854,588
Reserves maintained with central banks	10,083,446	15,379,030
Certificate of deposits with central banks	228,201	4,841,367
Gross cash and balances with central banks	29,602,072	24,905,213
Less: Allowance for impairment (Note 43.3)	(465)	(247)
Total cash and balances with central banks, net	29,601,607	24,904,966
The geographical concentration is as follows:		
Within the UAE	28,592,453	24,120,803
Outside the UAE	1,009,619	784,410
	29,602,072	24,905,213
Less: Allowance for impairment (Note 43.3)	(465)	(247)
	29,601,607	24,904,966

(*) includes overnight deposit amounting to AED 17,000,000 thousand (December 31, 2019 – AED nil) placed with CBUAE at 0.10% p.a.

Reserves maintained with central banks represent deposits with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are available for day-to-day operations only under certain specified conditions.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

8. Deposits and balances due from banks, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Nostro balances	1,194,880	1,151,543
Margin deposits	2,735,002	1,315,686
Time deposits	5,071,201	5,616,585
Wakala placements	1,744,675	3,305,700
Loans and advances to banks	10,836,253	11,725,422
Gross deposits and balances due from banks	21,582,011	23,114,936
Less: Allowance for impairment (Note 43.3)	(46,569)	(49,962)
Total deposits and balances due from banks, net	21,535,442	23,064,974
The geographical concentration is as follows:		
Within the UAE	6,535,296	8,013,181
Outside the UAE	15,046,715	15,101,755
	21,582,011	23,114,936
Less: Allowance for impairment (Note 43.3)	(46,569)	(49,962)
	21,535,442	23,064,974

9. Derivative financial instruments

In the ordinary course of business the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, commodity swaps, interest rate swaps and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

FORWARD AND FUTURES TRANSACTIONS

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

SWAP TRANSACTIONS

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross currency interest rate swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

OPTION TRANSACTIONS

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

Derivative contracts can be exchange traded or OTC. The Group values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Group uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference market data.

FAIR VALUE MEASUREMENT MODELS

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Group only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations or other empirical market data. In the absence of such evidence, Management's best estimates are used.

DERIVATIVES HELD OR ISSUED FOR TRADING PURPOSES

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

DERIVATIVES HELD OR ISSUED FOR HEDGING PURPOSES

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

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
As at December 31, 2020			
Derivatives held or issued for trading			
Foreign exchange derivatives	526,498	421,507	304,195,751
Interest rate and cross currency swaps	6,298,336	6,258,030	232,437,104
Interest rate and commodity options	895,776	656,480	64,008,310
Forward rate agreements	76	482	7,248,120
Commodity and energy swaps	136,202	126,151	1,563,427
Swaptions	577,111	493,621	72,938,327
Total derivatives held or issued for trading	8,433,999	7,956,271	682,391,039
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	2,340,794	2,774,791	73,023,342
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	57,361	110,585	3,942,375
Forward foreign exchange contracts	314,242	13,401	9,297,535
Total derivatives held as cash flow hedges	371,603	123,986	13,239,910
Total derivative financial instruments	11,146,396	10,855,048	768,654,291
As at December 31, 2019			
Derivatives held or issued for trading			
Foreign exchange derivatives	532,891	521,455	331,658,208
Interest rate and cross currency swaps	4,241,279	4,234,121	265,245,648
Interest rate and commodity options	421,623	331,066	57,957,412
Forward rate agreements	111	26	560,031
Futures (exchange traded)	15	–	7,254,310
Commodity and energy swaps	157,052	150,144	2,091,119
Swaptions	213,455	219,663	40,292,838
Total derivatives held or issued for trading	5,566,426	5,456,475	705,059,566
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	1,050,963	1,421,646	82,493,134
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	76,819	51,881	7,000,783
Forward foreign exchange contracts	95,509	19,889	8,285,366
Total derivatives held as cash flow hedges	172,328	71,770	15,286,149
Total derivative financial instruments	6,789,717	6,949,891	802,838,849

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk. Refer note 45 for maturity profile of notional value of derivatives held for hedging purpose.

The net hedge ineffectiveness gains/(losses) recognised in the consolidated income statement are as follows:

	2020 AED'000	2019 AED'000
Net change in the fair value of the hedged items attributable to risk hedged	125,633	(997,113)
Net change in the fair value of the hedging instruments	(94,033)	950,115
Fair value hedging ineffectiveness gains/(losses)	31,600	(46,998)
Add: Cash flow hedging ineffectiveness gains	–	365
Net hedge ineffectiveness gains/(losses)	31,600	(46,633)

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The table below provides the Group's forecast of net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Forecasted net cash flows Year	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	More than 5 years AED'000	Total AED'000
2020	197,444	93,852	2,025	(526)	(26,174)	266,621
2019	30,421	64,672	34,141	25,633	–	154,867

As at December 31, 2020, the Group received cash collateral of AED 1,690,099 thousand (December 31, 2019 – AED 758,274 thousand) and bonds with fair value of AED 922,863 thousand (December 31, 2019 – AED 186,117 thousand) against positive fair value of derivative assets.

As at December 31, 2020, the Group placed cash collateral of AED 2,748,588 thousand (December 31, 2019 – AED 1,315,686 thousand) and bonds of AED 3,313,735 thousand (December 31, 2019 – AED 1,956,945 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC (*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2020				
At fair value through other comprehensive income				
Quoted:				
Government securities	16,752,097	14,404,246	7,742,358	38,898,701
Bonds — Public sector	9,822,747	1,914,715	4,312,979	16,050,441
Bonds — Banks and financial institutions	3,993,676	590,994	4,340,036	8,924,706
Bonds — Corporate	1,113,847	394,689	194,624	1,703,160
Equity instruments (**)	261,336	110,077	312,901	684,314
Mutual funds	–	–	84,853	84,853
Total quoted	31,943,703	17,414,721	16,987,751	66,346,175
Unquoted:				
Equity instruments	166,548	–	37,550	204,098
Mutual funds	–	1,337	546	1,883
Total unquoted	166,548	1,337	38,096	205,981
Total investment securities at fair value through other comprehensive income	32,110,251	17,416,058	17,025,847	66,552,156
At amortised cost				
Quoted:				
Government securities	5,009,526	4,368,820	4,150,655	13,529,001
Bonds — Public sector	2,536,387	1,253,712	2,206,558	5,996,657
Bonds — Banks and financial institutions	149,026	–	366,395	515,421
Bonds — Corporate	1,604,541	–	20,054	1,624,595
Total quoted	9,299,480	5,622,532	6,743,662	21,665,674
Less: Allowance for impairment (Note 43.3)	(2,253)	(1,512)	(8,081)	(11,846)
Total investment securities at amortised cost	9,297,227	5,621,020	6,735,581	21,653,828
Total investment securities	41,407,478	23,037,078	23,761,428	88,205,984

(*) Gulf Cooperation Council

(**) includes investments in perpetual bonds issued by other banks

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

	UAE AED'000	Other GCC countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2019 (restated) (Note 53)				
At fair value through other comprehensive income				
Quoted:				
Government securities	11,991,052	16,262,483	9,335,345	37,588,880
Bonds — Public sector	10,209,692	1,780,786	4,695,439	16,685,917
Bonds — Banks and financial institutions	6,882,385	479,304	5,083,594	12,445,283
Bonds — Corporate	1,302,004	473,176	302,977	2,078,157
Equity instruments (*)	251,237	110,809	81,623	443,669
Mutual funds	72,201	–	86,990	159,191
Total quoted	30,708,571	19,106,558	19,585,968	69,401,097
Unquoted:				
Government securities	3,509,814	174,598	–	3,684,412
Bonds — Banks and financial institutions	–	–	134,226	134,226
Equity instruments	183,077	–	37,655	220,732
Mutual funds	–	1,615	580	2,195
Total unquoted	3,692,891	176,213	172,461	4,041,565
Total investment securities	34,401,462	19,282,771	19,758,429	73,442,662

(*) includes investments in perpetual bonds issued by other banks

As at December 31, 2020, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 229,820 thousand (December 31, 2019 – AED 260,417 thousand) (Note 43.3) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at December 31, 2020 was AED 2,753,972 thousand (December 31, 2019 – net negative fair value AED 1,010,614 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	As at December 31, 2020		As at December 31, 2019	
	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	15,060,298	13,027,819	1,041,439	851,056

Further, the Group pledged investment securities with fair value amounting to AED 3,313,735 thousand (December 31, 2019 – AED 1,964,034 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000
Overdrafts (retail and corporate)	9,834,901	12,682,973
Retail loans	43,176,876	46,664,157
Corporate loans	183,898,332	180,835,988
Credit cards	4,252,266	4,946,370
Other facilities	9,290,855	10,037,002
Gross loans and advances to customers	250,453,230	255,166,490
Less: Allowance for impairment (Note 43.3)	(11,477,528)	(7,333,410)
Total loans and advances to customers, net	238,975,702	247,833,080

(*) refer note 53

For Islamic financing assets included in the above table, refer note 24.

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net positive fair value of these swaps at December 31, 2020 was AED 36,933 thousand (December 31, 2019 — net positive fair value of AED 28,252 thousand).

12. Investment in associates

Investment in associates has been accounted in the consolidated financial statements using the equity method at net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

	AED'000
As at January 1, 2019	205,158
Addition on business combinations (Note 53)	197,855
Share in profit of associates	17,765
Dividend received from associates	(14,194)
Impact of currency translation	1,184
As at December 31, 2019	407,768
Share in profit of associates	18,005
Dividend received from associates	(9,647)
Impairment charge (Note 33)	(18,673)
Transfer to held for sale (Note 35)	(101,347)
Disposal during the year	(40,414)
Impact of currency translation	176
As at December 31, 2020	255,868

Investment in Al Hilal Global Balance Fund, one of the associates, was liquidated during the year and the carrying value of investment was fully realised on liquidation resulting in no gain or loss on disposal of associate.

For balances and transactions with associates, refer note 37.

Details of the investment in associates as at December 31, 2020 are as follows:

Name of associate	Effective ownership interest		Country of incorporation	Principal activities
	2020	2019		
Four N Property LLC	35.00%	35.00%	UAE	Residential facilities for lower income group.
Orient UNB Takaful PJSC ⁽¹⁾	47.54%	47.54%	UAE	General insurance services.
Arab Orient Takaful Insurance Company ⁽¹⁾	19.96%	19.32%	Egypt	General insurance services.
Al Hilal Global Sukuk Fund	10.14%	31.89%	UAE	Investment activities.
Al Hilal GCC Equity Fund	75.60%	48.99%	UAE	Investment activities.
Al Hilal Global Balance Fund ⁽²⁾	—	76.43%	UAE	Investment activities.

(1) held for sale; (2) liquidated

13. Investment properties

	AED'000
As at January 1, 2019	576,671
Addition on business combinations (Note 53)	1,180,799
Additions during the year	8,550
Disposals during the year	(5,859)
Revaluation of investment properties	(67,153)
Impact of currency translation	699
As at December 31, 2019	1,693,707
Disposals during the year	(4,574)
Revaluation of investment properties	(45,388)
Impact of currency translation	211
As at December 31, 2020	1,643,956

For the year 2020, net losses from investment properties include net gains of AED 416 thousand (2019: net gains of AED 417 thousand) on disposal of investment properties.

Additions during the year represent real estate acquired on settlement of certain loans and advances. These being non-cash transactions have not been reflected in the consolidated statement of cash flows.

FAIR VALUATIONS

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and experience in the location and category of the property being valued.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are primarily located within the UAE.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

LEASE RECEIVABLES

Details of rental income and direct operating expenses relating to investment properties during the year are as follows:

	2020 AED'000	2019 AED'000
Rental income	82,259	82,563
Direct operating expenses	23,475	24,236

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

	2020 AED'000	2019 AED'000
Non-cancellable operating lease receivables		
Not later than one year	39,038	33,210
Later than one year but not later than five years	–	22,811
Later than five years	–	23,271
Total non-cancellable operating lease receivables	39,038	79,292

14. Other assets, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Interest receivable	2,612,413	3,286,001
Advance tax	2,148	3,451
Prepayments	90,767	139,116
Acceptances (Note 21)	6,809,348	12,726,229
Others	584,864	614,693
Gross other assets	10,099,540	16,769,490
Less: Allowance for impairment (Note 43.3)	(18,127)	(19,282)
Total other assets, net	10,081,413	16,750,208

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Right of use asset AED'000	Total AED'000
Cost or valuation							
As at January 1, 2019	889,322	207,809	225,392	1,196,599	79,606	–	2,598,728
Addition on business combinations (Note 53)	663,645	121,478	53,651	116,459	43,065	90,069	1,088,367
Recognition of right of use asset on adoption of IFRS 16	–	–	–	–	–	141,722	141,722
Exchange difference	3,416	1,630	696	1,599	109	3,429	10,879
Additions during the year	47	3,553	2,169	12,766	254,809	80,347	353,691
Transfers during the year	463	20,926	6,374	193,127	(220,890)	–	–
Transfer to expenses	–	–	–	–	(1,672)	–	(1,672)
Transfer to held for sale	(2,952)	(383)	(1,848)	(6,545)	–	–	(11,728)
Disposals during the year	(6,154)	(966)	(1,637)	(362)	–	–	(9,119)
As at December 31, 2019	1,547,787	354,047	284,797	1,513,643	155,027	315,567	4,170,868
Exchange difference	936	542	725	1,068	50	31	3,352
Additions during the year	–	10,099	8,276	27,387	178,315	82,930	307,007
Transfers during the year	1,785	10,273	8,762	178,878	(199,698)	–	–
Disposals during the year	(2,653)	(5,395)	(14,302)	(20,481)	(728)	(66,652)	(110,211)
As at December 31, 2020	1,547,855	369,566	288,258	1,700,495	132,966	331,876	4,371,016
Accumulated depreciation							
As at January 1, 2019	438,055	158,196	187,696	832,176	–	–	1,616,123
Exchange difference	(6)	80	53	80	–	136	343
Charge for the year (Note 32)	58,771	29,338	23,023	183,559	–	71,423	366,114
Transfer to held for sale	(983)	(102)	(1,300)	(5,333)	–	–	(7,718)
Disposals during the year	(69)	(81)	(1,071)	(344)	–	–	(1,565)
As at December 31, 2019	495,768	187,431	208,401	1,010,138	–	71,559	1,973,297
Exchange difference	17	415	223	(186)	–	(146)	323
Charge for the year (Note 32)	62,023	39,299	24,019	189,388	–	89,182	403,911
Disposals during the year	(378)	(2,716)	(14,697)	(19,033)	–	(28,266)	(65,090)
As at December 31, 2020	557,430	224,429	217,946	1,180,307	–	132,329	2,312,441
Carrying amount							
As at December 31, 2020	990,425	145,137	70,312	520,188	132,966	199,547	2,058,575
As at December 31, 2019	1,052,019	166,616	76,396	503,505	155,027	244,008	2,197,571

16. Intangible assets, net

	Other intangible assets				Total AED'000
	Goodwill AED'000	Trade mark and license AED'000	Core deposits AED'000	Customer relationships AED'000	
Cost or valuation					
As at January 1, 2019	18,800	–	–	–	18,800
Recognised on business combinations (Note 53)	4,592,872	244,000	457,000	84,000	5,377,872
As at December 31, 2019 (as previously reported)	4,611,672	244,000	457,000	84,000	5,396,672
Effect of IFRS 3 adjustments (Note 53)	2,141,845	–	–	–	2,141,845
As at December 31, 2019 (restated)	6,753,517	244,000	457,000	84,000	7,538,517
Exchange difference	–	11,258	–	–	11,258
As at December 31, 2020	6,753,517	255,258	457,000	84,000	7,549,775
Accumulated amortisation					
As at January 1, 2019	–	–	–	–	–
Amortisation for the year (Note 32)	–	–	54,004	10,171	64,175
As at December 31, 2019	–	–	54,004	10,171	64,175
Amortisation for the year (Note 32)	–	–	80,202	15,107	95,309
As at December 31, 2020	–	–	134,206	25,278	159,484
Carrying amount					
As at December 31, 2020	6,753,517	255,258	322,794	58,722	7,390,291
As at December 31, 2019	6,753,517	244,000	402,996	73,829	7,474,342

GOODWILL

GOODWILL ARISING ON BUSINESS COMBINATIONS DURING 2019

On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in an all-stock transaction. The merged entity subsequently completed 100% acquisition of Al Hilal Bank PJSC (or "AHB"). Based on the purchase price allocation exercise performed by an external consultant following the merger and acquisition, the Bank recognised AED 785,000 thousand as intangible assets and AED 6,734,717 thousand as goodwill. Refer note 53 for details.

IMPAIRMENT ASSESSMENT OF GOODWILL

For the purposes of impairment testing, goodwill acquired in a business combination is required to be allocated to the CGUs. In a goodwill impairment test, the recoverable amounts of the goodwill-carrying CGUs are compared with the respective carrying amounts. The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use.

The carrying amount of CGU is derived using a capital allocation model where the Group's core equity capital is allocated to the CGUs. The Group determines the recoverable amounts of its CGUs on the basis of value in use and employs a DCF model, which reflects the specifics of the banking business and its regulatory environment. The model calculates the present value of the estimated future earnings that are distributable to shareholders after fulfilling the respective regulatory capital requirements.

The DCF model uses earnings projections and respective capitalisation assumptions based on five-year financial plans, which are discounted to their present value. Estimating future earnings and capital requirements involves judgement and the consideration of past and current performances as well as expected developments in the respective markets, and in the overall macroeconomic and regulatory environments.

Earnings projections beyond the initial five-year period are, where applicable, adjusted to derive a sustainable level. In case of a going concern, the cash flow to equity is assumed to increase by or converge towards a constant long-term growth rate. This is based on projected revenue forecasts of the CGUs as well as expected gross domestic product growth and is captured in the terminal value.

The DCF value of a CGU is sensitive to the projections of distributable earnings, to the discount rate (cost of equity) applied and, to the long-term growth rate. The discount rates applied have been determined based on the capital asset pricing model and comprise of a risk-free interest rate, a market risk premium and a factor covering the systematic market risk (beta factor).

GOODWILL ARISING ON ACQUISITION OF RBS PORTFOLIO

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the U.A.E. for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets which were fully amortised during the previous years and AED 18,800 thousand as goodwill.

No impairment loss on goodwill was recognised during the year ended December 31, 2020 (2019 – AED nil).

OTHER INTANGIBLE ASSETS

Trade mark and license	Indefinite life	AHB has built a strong franchise and has a reputation as a progressive Islamic bank offering a wide range of client-centric Shari'ah compliant retail banking products. The AHB brand plays a key part in generating revenues for the Bank.
Egypt license	Indefinite life	This has been recognised as an intangible asset as Central Bank of Egypt has not issued a new banking license to any entity for the past 20 years, and has therefore restricted engagement in banking activities to banks already licensed and operating in Egypt. The license plays a key part in generating revenues for the Bank. Egypt license was valued considering the market approach using comparable transactions.
Customer relationships	3 to 6 years	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, trade finance customers were considered. These relationships are expected to generate material recurring income in the form of fees and commission.
Core deposit intangible	4.5 to 7 years	The value of core deposit intangible asset arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

17. Due to banks

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Vostro balances	1,536,263	1,739,098
Margin deposits	1,335,846	460,583
Time deposits	5,349,962	3,533,098
Total due to banks	8,222,071	5,732,779

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2020 was AED 7,794 thousand (December 31, 2019 — net positive fair value of AED 14,719 thousand).

18. Deposits from customers

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Time deposits	123,588,063	159,797,395
Current account deposits	94,158,197	78,022,123
Savings deposits	31,375,845	21,873,206
Long term government deposits	315,678	351,702
Margin deposits	1,957,674	2,049,356
Total deposits from customers	251,395,457	262,093,782

For Islamic deposits included in the above table, refer note 24.

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2020 was AED 174,740 thousand (December 31, 2019 — net positive fair value of AED 52,648 thousand).

19. Euro commercial paper

The details of euro commercial paper ("ECP") issuances under the Bank's ECP programme are as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Currency		
US dollar (USD)	2,279,854	889,733
UAE dirham (AED)	199,934	199,789
Euro (EUR)	1,547,128	404,553
Swiss franc (CHF)	375,830	247,332
Great Britain pound (GBP)	350,847	320,931
Total euro commercial paper	4,753,593	2,062,338

The Group hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts as at December 31, 2020 was AED 118,510 thousand (December 31, 2019 — net positive fair value of AED 6,060 thousand).

The effective interest rate on zero coupon ECPs issued ranges between negative 0.548% p.a. to positive 2.010% p.a. (December 31, 2019 — between negative 0.439% p.a. to positive 3.189% p.a.).

Reconciliation of ECP movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2019	3,279,302
Net proceeds from issuances	3,777,878
Repayments	(5,035,632)
Other movements	40,790
As at December 31, 2019	2,062,338
Net proceeds from issuances	12,346,577
Repayments	(9,670,741)
Other movements	15,419
As at December 31, 2020	4,753,593

Net proceeds from issuances include effects of changes in foreign exchange rates. Other movements include discount amortised.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

20. Borrowings

The details of borrowings as at December 31, 2020 are as follows:

Instrument	Currency	Within 1 year AED'000	1–3 years AED'000	3–5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	86,254	810,625	–	717,488	1,614,367
	Chinese renminbi (CNH)	135,726	311,634	236,149	–	683,509
	Euro (EUR)	–	89,946	92,803	–	182,749
	Swiss franc (CHF)	335,032	732,097	1,509,728	–	2,576,857
	Japanese yen (JPY)	88,977	81,594	–	–	170,571
	Hong Kong dollar (HKD)	152,495	333,728	152,671	–	638,894
	US dollar (USD)	2,301,758	6,248,522	3,892,008	21,364,661	33,806,949
	Great Britain pound (GBP)	80,576	279,579	–	–	360,155
	Indonesian rupiah (IDR)	–	–	–	577,122	577,122
		3,180,818	8,887,725	5,883,359	22,659,271	40,611,173
Islamic sukuk notes	US dollar (USD)	–	1,868,272	–	–	1,868,272
Bilateral loans	US dollar (USD)	183,447	4,723,374	731,068	–	5,637,889
	Kazakhstan tenge (KZT)	–	–	–	89,091	89,091
Certificate of deposits issued	US dollar (USD)	1,163,680	–	–	–	1,163,680
	Euro (EUR)	135,460	–	–	–	135,460
Subordinated notes — fixed rate	US dollar (USD)	–	2,862,660	–	–	2,862,660
Borrowings through repurchase agreements	US dollar (USD)	1,981,860	4,521,945	–	202,333	6,706,138
	UAE dirham (AED) (*)	6,306,165	–	–	–	6,306,165
	Egyptian pound (EGP)	–	5,093	–	10,423	15,516
Total borrowings		12,951,430	22,869,069	6,614,427	22,961,118	65,396,044

(*) represents interest free borrowings from CBUAE under its Targeted Economic Support Scheme (TESS)

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at December 31, 2020 was AED 2,229,616 thousand.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The details of borrowings as at December 31, 2019 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	–	807,944	–	474,343	1,282,287
	Chinese renminbi (CNH)	–	352,333	106,035	–	458,368
	Euro (EUR)	214,601	81,860	81,741	–	378,202
	Swiss franc (CHF)	–	301,889	2,034,085	–	2,335,974
	Japanese yen (JPY)	–	162,125	–	–	162,125
	Hong Kong dollar (HKD)	150,386	367,352	180,651	–	698,389
	US dollar (USD)	3,616,709	3,779,972	7,472,489	17,974,140	32,843,310
	Great Britain pound (GBP)	–	345,247	–	–	345,247
	Indonesian rupiah (IDR)	–	–	–	535,180	535,180
		3,981,696	6,198,722	9,875,001	18,983,663	39,039,082
Islamic sukuk notes	US dollar (USD)	–	–	1,879,762	–	1,879,762
Bilateral loans — floating rate	US dollar (USD)	1,466,928	2,932,797	1,240,208	–	5,639,933
Syndicated loan — floating rate	US dollar (USD)	734,600	–	–	–	734,600
Certificate of deposits issued	Great Britain pound (GBP)	408,327	–	–	–	408,327
	US dollar (USD)	322,237	–	–	–	322,237
	Canadian dollar (CAD)	211,430	–	–	–	211,430
Subordinated notes — fixed rate	US dollar (USD)	–	–	2,795,627	–	2,795,627
Borrowings through repurchase agreements	US dollar (USD)	632,161	–	–	202,333	834,494
	Egyptian pound (EGP)	98	6,026	–	10,438	16,562
Total borrowings		7,757,477	9,137,545	15,790,598	19,196,434	51,882,054

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at December 31, 2019 was AED 638,810 thousand.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Interests are payable in arrears and the contractual coupon rates as at December 31, 2020 are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	Fixed rate of 3.73% p.a.	Fixed rate between 3.75% p.a. to 3.92% p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	–	Fixed rate between 2.69% p.a. to 4.50% p.a.
	CNH	Fixed rate between 4.85% p.a. to 5.02% p.a.	Fixed rate 3.00% p.a. to 4.82% p.a.	Fixed rate between 3.33% p.a. to 4.60% p.a.	–
	EUR	–	Fixed rate of 0.038% p.a.	Fixed rate of 0.75% p.a.	–
	CHF	Zero coupon with an internal rate of return 0.05% p.a.	Fixed rate of 0.385% p.a.	Fixed rate between 0.05% p.a. and 0.735% p.a.	–
	JPY	Fixed rate of 0.445% p.a.	Fixed rate of 0.445% p.a.	–	–
	HKD	Fixed rate between 2.69% p.a. to 2.86% p.a.	Fixed rate between 2.84% p.a. to 3.20% p.a.	Fixed rate between 1.34% p.a. to 2.87% p.a.	–
	USD	Fixed rate of 2.75% p.a. and quarterly coupons between 80 to 85 basis points over Libor	Fixed rate of 4.0% p.a. and quarterly coupons between 88 to 140 basis points over Libor	Quarterly coupons between 103 to 155 basis points over Libor	Fixed rate between 4.65% p.a. to 5.10% p.a.; zero coupon with an internal rate of return between 3.271% p.a. to 5.785% p.a. and quarterly coupons with 140 basis points over Libor (*)
	GBP	Fixed rate of 1.40% p.a.	Fixed rate between 1.95% p.a. to 2.03% p.a.	–	–
	IDR	–	–	–	Fixed rate between 7.50% p.a. to 8.16% p.a.
Islamic Sukuk notes	USD	–	Fixed rate of 4.375% p.a.	–	–
Bilateral loans	USD	Monthly coupons of 63 basis points over Libor	Monthly coupons between 50 to 95 basis points over Libor	Monthly coupons of 100 basis points over Libor	–
	KZT	–	–	–	Fixed rate of 9.5 % p.a.
Certificate of deposits issued	USD	Zero coupon with an internal rate of return between 0.363% p.a. to 0.389% p.a.	–	–	–
	EUR	Zero coupon with an internal rate of return of negative 0.456% p.a.	–	–	–
Subordinated notes — fixed rate	USD	–	Fixed rate of 4.50% p.a.	–	–
Borrowings through repurchase agreements	USD	Fixed rate between 0.45% p.a. to 0.60% p.a. and quarterly coupons with 45 basis points over Libor	Fixed rate of 0.60% p.a. and quarterly coupons between 45 to 50 basis points over Libor.	–	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	EGP	–	Fixed rate of 3.00% p.a.	–	Fixed rate between 0.50% p.a. to 3.50% p.a.

(*) includes AED 20,446,564 thousand accreting notes issued with original tenors ranging from 30 years to 40 years with internal rate of return ranging between 3.271% p.a. to 5.785% p.a. and are callable at the end of every 5th, 6th, 7th or 10th year from issue date

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The subordinated fixed rate note qualifies as Tier 2 capital and is eligible for grandfathering at the rate of 10% per annum in accordance with capital guidance issued by CBUAE. Further, the subordinated fixed rate note has entered its five years to maturity and is being amortised at the rate of 20% per annum till its maturity in 2023 (Note 50).

Reconciliation of borrowings movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2019	43,027,749
Net proceeds from issuances	18,012,653
Addition on business combinations (Note 53)	8,152,427
Repayments	(19,799,050)
Other movements	2,488,275
As at December 31, 2019	51,882,054
Net proceeds from issuances	33,895,814
Repayments	(22,859,293)
Other movements	2,477,469
As at December 31, 2020	65,396,044

Net proceeds from issuances include effects of changes in foreign exchange rates on borrowings. Other movements include interest capitalised on callable accreting notes, discount on issuances amortised and changes in fair value hedges.

21. Other liabilities

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Interest payable	916,464	1,758,479
Recognised liability for defined benefit obligation	630,203	633,262
Accounts payable and other creditors	294,991	353,293
Deferred income	891,883	813,968
Acceptances (Note 14)	6,809,348	12,726,229
Impairment allowance on letters of credit, guarantees and other commitments (Note 43.3)	544,914	1,432,363
Others (*)	3,840,172	2,585,200
Total other liabilities	13,927,975	20,302,794

(*) includes AED 192,363 thousand pertaining to finance lease liability as at December 31, 2020 (December 31, 2019 — AED 226,828 thousand)

DEFINED BENEFIT OBLIGATION

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2020 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate:	1.68% p.a. (2019: 2.80% p.a.)
Salary increment rate:	3.00% p.a. (2019: 3.00% p.a.)

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

The liability would be higher by AED 22,673 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 21,337 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 17,995 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 17,128 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2020 AED'000	2019 AED'000
Opening balance	633,262	487,995
Addition on business combinations	—	206,825
Net charge during the year (*)	59,660	74,158
Actuarial losses/(gains) on defined benefit obligation	31,213	(16,773)
Benefits paid	(93,932)	(118,943)
Closing balance	630,203	633,262

(*) recognised under "staff expense" in the consolidated income statement

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

DEFINED CONTRIBUTION

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other employees including GCC Nationals. The charge for the year in respect of these contributions is AED 64,627 thousand (2019 — AED 55,930 thousand). As at December 31, 2020, pension payable of AED 7,241 thousand has been classified under 'Other liabilities — others' (December 31, 2019 — AED 7,139 thousand).

TAX MATTERS

The Group's current tax provision include management's assessment of portion of amount of tax payable on claims from relevant tax authorities. Uncertain tax items for which a provision of AED 75,000 thousand as at December 31, 2020 (December 31, 2019 — AED 15,000 thousand) is included under 'Other liabilities — others' relates principally to the interpretation of tax legislation applicable to arrangements entered into by the Group. Due to the uncertainty associated with such tax items, it is possible that, on conclusion of open tax matters at a future date, the final outcome may differ.

ZAKAT

In accordance with Cabinet Resolution No. (15/9) of 2020 and CB UAE Notice No. CBUAE/BSN/2020/3519, all banks and finance companies operating in the UAE that conduct all or part of their business in accordance with the principles of Islamic Shari'ah are required to pay Zakat and transfer 20% of Zakat monies to Zakat Fund in the UAE. Accordingly, the Bank and its subsidiary, Al Hilal Bank PJSC (AHB), have appropriated AED 90,156 thousand and AED 24,059 thousand respectively from equity to Zakat payable account. The Zakat payable amount is shown under 'Other liabilities — others'. The total Zakat payable amount pertains to Shari'ah compliant assets and liabilities of UAE operations of the Group. In order to comply with the aforementioned Cabinet Resolution, the Group shall transfer 20% of its Zakat monies to Zakat Fund in the UAE.

The Zakat payable by the Bank on behalf of its shareholders is computed based on "Net asset method" as per Financial Accounting Standard (FAS) No. (9) Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The mechanism of calculation of Zakat has been reviewed and approved by the internal Shari'ah Supervisory Committees of the Bank and AHB.

22. Share capital

	Authorised AED'000	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Ordinary shares of AED 1 each	10,000,000	6,957,379	6,957,379

As stated in note 1, the Bank issued 1,759,148,145 shares pursuant to the merger and acquisition in the year 2019 as follows:

	UNB AED'000	AHB AED'000	Total AED'000
Ordinary share capital issued	1,641,501	117,647	1,759,148
Share premium	14,576,530	882,353	15,458,883
Purchase consideration (Note 53)	16,218,031	1,000,000	17,218,031

As at December 31, 2020, Abu Dhabi Investment Council held 60.20% (December 31, 2019 — 60.20%) of the Bank's issued and fully paid up share capital.

DIVIDENDS

For the year ended December 31, 2020, the Board of Directors has proposed to pay a cash dividend of AED 1,878,492 thousand, being AED 0.27 dividend per share and representing 27% of the paid up capital (December 31, 2019 — AED 2,643,804 thousand, being AED 0.38 dividend per share and representing 38% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Reserves movement for the year ended December 31, 2019:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2019	(41,758)	2,797,799	2,797,799	2,000,000	150,000	(86,249)	(148,778)	(609,542)	6,859,271	–	6,859,271
Exchange difference arising on translation of foreign operations	–	–	–	–	–	31,728	–	–	31,728	1,161	32,889
Net fair value changes on cash flow hedges	–	–	–	–	–	–	152,115	–	152,115	–	152,115
Net fair value changes on cash flow hedges reclassified to consolidated income statement	–	–	–	–	–	–	19,390	–	19,390	–	19,390
Net fair value changes of debt instruments designated at FVTOCI	–	–	–	–	–	–	–	1,198,640	1,198,640	1,261	1,199,901
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	–	–	–	–	–	–	–	77,802	77,802	–	77,802
Net fair value changes of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(26,763)	(26,763)	–	(26,763)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(23,853)	(23,853)	–	(23,853)
Total other comprehensive income for the year	–	–	–	–	–	31,728	171,505	1,225,826	1,429,059	2,422	1,431,481
Transfer from retained earnings (Note 50)	–	478,968	478,968	–	–	–	–	–	957,936	–	957,936
Fair value adjustments	(18)	–	–	–	–	–	–	–	(18)	–	(18)
Shares – vested portion (Note 25)	11,671	–	–	–	–	–	–	–	11,671	–	11,671
As at December 31, 2019	(30,105)	3,276,767	3,276,767	2,000,000	150,000	(54,521)	22,727	616,284	9,257,919	2,422	9,260,341

(*) Includes impairment charge for the year (Note 33)

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

23. Other reserves

Reserves movement for the year ended December 31, 2020:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2020	(30,105)	3,276,767	3,276,767	2,000,000	150,000	(54,521)	22,727	616,284	9,257,919	2,422	9,260,341
Exchange difference arising on translation of foreign operations	–	–	–	–	–	(2,706)	–	–	(2,706)	31	(2,675)
Net fair value changes on cash flow hedges	–	–	–	–	–	–	(52,934)	–	(52,934)	–	(52,934)
Net fair value changes on cash flow hedges reclassified to consolidated income statement	–	–	–	–	–	–	(3,257)	–	(3,257)	–	(3,257)
Net fair value changes of debt instruments designated at FVTOCI	–	–	–	–	–	–	–	472,209	472,209	59	472,268
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	–	–	–	–	–	–	–	(191,561)	(191,561)	–	(191,561)
Net fair value changes of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(3,631)	(3,631)	–	(3,631)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(19,953)	(19,953)	–	(19,953)
Total other comprehensive (loss)/income for the year	–	–	–	–	–	(2,706)	(56,191)	257,064	198,167	90	198,257
Acquisition of non-controlling interests	–	–	–	–	–	1,071	–	1,177	2,248	(2,248)	–
Transfer from retained earnings (Note 50)	–	201,923	201,923	–	–	–	–	–	403,846	–	403,846
Fair value adjustments	36	–	–	–	–	–	–	–	36	–	36
Shares – vested portion (Note 25)	3,200	–	–	–	–	–	–	–	3,200	–	3,200
As at December 31, 2020	(26,869)	3,478,690	3,478,690	2,000,000	150,000	(56,156)	(33,464)	874,525	9,865,416	264	9,865,680

(*) Includes impairment charge for the year (Note 33)

For more information on reserves, refer note 50.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

24. Islamic financing

Islamic financing assets	As at	As at
	December 31	December 31
	2020	2019
	AED'000	AED'000
Murabaha	22,070,964	20,491,619
Ijara financing	18,427,085	19,420,022
Salam	3,624,170	6,558,810
Others	434,459	596,398
Gross Islamic financing assets	44,556,678	47,066,849
Less: Allowance for impairment	(1,804,555)	(845,643)
Net Islamic financing assets	42,752,123	46,221,206

Gross Ijara and related present value of the minimum Ijara payments		
	As at	As at
	December 31	December 31
	2020	2019
	AED'000	AED'000
Not later than one year	4,798,006	4,611,268
Later than one year but not later than five years	9,522,318	11,216,570
Later than five years	7,855,554	9,514,024
Gross Ijara	22,175,878	25,341,862
Less: Deferred income	(3,748,793)	(5,921,840)
Net Ijara	18,427,085	19,420,022
Net present value		
Not later than one year	4,048,168	3,598,755
Later than one year but not later than five years	7,945,565	8,633,960
Later than five years	6,433,352	7,187,307
Total net present value	18,427,085	19,420,022

Income from Islamic financing and investing products		
	2020	2019
	AED'000	AED'000
Murabaha	1,135,352	1,025,079
Ijara financing	806,195	938,843
Salam	318,857	409,329
Sukuk investments	123,329	74,343
Others	30,818	48,372
Total income from Islamic financing and investing products	2,414,551	2,495,966

Islamic deposits		
	As at	As at
	December 31	December 31
	2020	2019
	AED'000	AED'000
Current account deposits	12,285,859	11,507,685
Margin deposits	222,789	252,100
Mudaraba savings deposits	15,052,588	11,401,045
Mudaraba term deposits	1,792,638	1,324,282
Wakala deposits	9,790,404	22,491,377
Total Islamic deposits	39,144,278	46,976,489

Distribution on Islamic deposits and profit paid to sukuk holders		
	2020	2019
	AED'000	AED'000
Mudaraba savings and term deposits	99,559	88,831
Wakala deposits	331,089	599,640
Islamic sukuk notes and reverse murabaha	106,223	79,138
Total distribution on Islamic deposits and profit paid to sukuk holders	536,871	767,609

25. Employees' incentive plan shares, net

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Board Nomination Compensation HR and Governance Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

During the year ended December 31, 2020, the Group had the following incentive plan in force as described below:

Grant date	January 1, 2017
Number of shares granted	2,675,000
Fair value of the granted shares at the grant date in AED thousand	18,458
Vesting date	December 31, 2020

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

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The movement of plan shares is as follows:

	2020	2019
Opening balance	2,245,000	5,184,158
Exercised during the year	(2,160,000)	(2,685,579)
Forfeited during the year	(85,000)	(253,579)
Closing balance	—	2,245,000
Amount of "Plan" cost recognised under "staff expenses" in the consolidated income statement (AED'000)	3,200	11,671

Total number of un-allotted shares under the Plan as at December 31, 2020 were 4,190,237 shares (December 31, 2019 — 4,105,237 shares). These un-allotted shares include forfeited shares and shares purchased for future awards.

26. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

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

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

Pursuant to merger, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand (Note 53). The terms and conditions applicable to these notes are similar to the Notes issued by ADCB.

Further, AHB's Tier I regulatory capital note amounting to AED 1,836,500 thousand assumed on the date of acquisition (Note 53), were settled in June 2019.

27. Interest income

	2020	2019
	AED'000	AED'000
Loans and advances to banks	474,750	1,008,319
Loans and advances to customers	9,144,144	10,606,624
Investment securities	2,031,964	2,262,743
Total interest income	11,650,858	13,877,686

28. Interest expense

	2020	2019
	AED'000	AED'000
Deposits from banks	57,725	110,738
Deposits from customers	2,594,760	4,497,323
Euro commercial paper	41,851	90,563
Borrowings (*)	1,051,266	1,666,283
Total interest expense	3,745,602	6,364,907

(*) includes AED 15,061 thousand (2019: AED 11,937 thousand) for interest expense on lease liabilities

29. Net fees and commission income

	2020	2019
	AED'000	AED'000
Fees and commission income		
Card related fees	811,122	1,001,618
Loan processing fees	541,710	621,888
Accounts related fees	162,882	167,416
Trade finance commission	477,217	438,536
Insurance commission	54,519	75,533
Asset management and investment services	56,743	86,840
Brokerage fees	7,619	6,519
Other fees	340,726	315,967
Total fees and commission income	2,452,538	2,714,317
Fees and commission expense	(901,649)	(898,155)
Net fees and commission income	1,550,889	1,816,162

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

30. Net trading income

	2020 AED'000	2019 AED'000
Net gains from dealing in derivatives	95,950	62,765
Net gains from dealing in foreign currencies	463,623	397,329
Net (losses)/gains from trading securities	(4,285)	815
Net trading income	555,288	460,909

31. Other operating income

	2020 AED'000	2019 AED'000
Property management income	142,543	132,053
Rental income	82,259	82,563
Net gains/(losses) from disposal of investment securities	282,701	(820)
Net gains arising from retirement of hedges	55,454	3,207
Dividend income	21,683	13,191
Others	42,466	40,475
Total other operating income	627,106	270,669

32. Operating expenses

	2020 AED'000	2019 AED'000
Staff expenses	2,552,018	2,583,719
General administrative expenses	1,475,103	1,503,671
Depreciation (Note 15)	403,911	366,114
Amortisation of intangible assets (Note 16)	95,309	64,175
Total operating expenses	4,526,341	4,517,679

33. Impairment charge

	2020 AED'000	2019 AED'000
Financial instruments carried at amortised cost — net charge (*)	4,962,558	2,629,534
Debt instruments designated at FVTOCI — net charge	93,305	85,504
Commitment and contingent liabilities — net release	(308,648)	(18,897)
Less: Recoveries/modifications during the year	(772,976)	(344,087)
Total expected credit losses (Note 43.3)	3,974,239	2,352,054
Impairment charge on investment in associates (Note 12)	18,673	—
Total impairment charge	3,992,912	2,352,054

(*) includes net charge of AED 11,846 thousand (2019: AED nil) on investment securities at amortised cost

34. Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE

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

	2020 AED'000	2019 AED'000
Profit for the year attributable to the equity holders of the Bank	3,806,078	4,789,686
Less: Coupons paid on capital notes (Note 26)	(277,294)	(265,056)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	3,528,784	4,524,630

	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	6,957,379	6,379,029
Less: Weighted average number of shares resulting from employees' incentive plan shares	(6,344)	(9,024)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	6,951,035	6,370,005
Add: Weighted average number of shares resulting from employees' incentive plan shares	6,344	9,024
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	6,957,379	6,379,029
Basic earnings per share (AED) (a)/(b)	0.51	0.71
Diluted earnings per share (AED) (a)/(c)	0.51	0.71

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

35. Discontinued operations

The Group has classified the overseas branches and operations in India, Jersey, Qatar, Kuwait, China and Singapore, and subsidiaries — Al Hilal Auto LLC and Abu Dhabi Commercial Bank (UK Representative Office) Limited, as discontinued operations. These have been presented separately in the statement of financial position.

During the year, the Group also classified its investments in associates — Orient UNB Takaful PJSC and Arab Orient Takaful Insurance Company, as held for sale.

Al Hilal Takaful PSC (subsidiary) which was classified as disposal group held for sale as at December 31, 2019 was disposed of during the year.

Loss from discontinued operations comprises of the following:

	2020 AED'000	2019 AED'000
Net interest and income from Islamic financing and investing products	4,795	15,722
Non-interest income	9,931	(24,253)
Operating expenses	(51,796)	(3,362)
Impairment charge	—	(24,825)
Overseas income tax charge	(3,695)	(41)
Total loss from discontinued operations	(40,765)	(36,759)

Loss from discontinued operations is fully attributable to the equity holders of the Bank.

The major class of assets and liabilities forming part of discontinued operations and assets held for sale are as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Assets		
Cash and balances with central banks, net	32,932	217,916
Deposits and balances due from banks, net	108,723	1,715
Loans and advances to customers, net	—	48,942
Investment in associates classified as held for sale (Note 12)	101,347	—
Other assets, net	16,202	263,665
Property and equipment, net	1,863	3,592
Total assets classified as held for sale	261,067	535,830
Liabilities		
Deposits from customers	—	120,283
Other liabilities	4,725	293,112
Total liabilities related to assets held for sale	4,725	413,395

The net cash flows attributable to discontinued operations are as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Net cash used in operating activities	(42,047)	(66,341)
Net cash from investing activities	—	260,383
Net cash used in financing activities	—	(212,759)
Net cash used in discontinued operations	(42,047)	(18,717)

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

36. Cash and cash equivalents

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

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Cash and balances with central banks (Note 7)	29,602,072	24,905,213
Deposits and balances due from banks (excluding loans and advances to banks) (Note 8)	10,745,758	11,389,514
Due to banks (Note 17)	(8,222,071)	(5,732,779)
	32,125,759	30,561,948
Less: Cash and balances with central banks and deposits and balances due from banks — with original maturity of more than three months	(5,025,020)	(10,442,791)
Add: Due to banks — with original maturity of more than three months	5,429,457	2,553,434
Add: Cash and cash equivalents included in assets held for sale	141,655	183,682
Total cash and cash equivalents	32,671,851	22,856,273

37. Related party transactions

The Group enters into transactions with the parent and its related entities, associates, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, so far as possible, to engage in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts and related parties register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' Conflict of Interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

PARENT AND ULTIMATE CONTROLLING PARTY

Abu Dhabi Investment Council holds 60.20% (December 31, 2019 — 60.20%) of the Bank's issued and fully paid up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions of the Group included in the consolidated statement of financial position and consolidated income statement, respectively, are as follows:

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management personnel AED'000	Associates and funds under management AED'000	Total AED'000
Balances as at December 31, 2020					
Deposits and balances due from banks	22,634	—	—	—	22,634
Derivative financial instruments — assets	1,578,219	—	—	—	1,578,219
Investment securities	25,955,155	—	—	155,297	26,110,452
Loans and advances to customers	43,021,433	583,192	17,073	164,944	43,786,642
Other assets	275,020	2,659	22	1,878	279,579
Derivative financial instruments — liabilities	1,107,790	—	—	—	1,107,790
Deposits from customers	98,727,448	75,056	44,875	34,265	98,881,644
Borrowings	5,414	—	—	—	5,414
Other liabilities	256,304	69	16,314	—	272,687
Capital notes	6,000,000	—	—	—	6,000,000
Commitments and contingent liabilities	11,372,337	8,741	2,033	919	11,384,030
Transactions for the year ended December 31, 2020					
Interest income, Islamic financing income, fees and other income	1,404,706	22,532	628	23,165	1,451,031
Interest expense and Islamic profit distribution	1,051,014	786	222	—	1,052,022
Derivative income	251,018	—	—	—	251,018
Impairment charge	1,026,829	—	—	—	1,026,829
Share in profit of associates	—	—	—	18,005	18,005
Coupons paid on capital notes	277,294	—	—	—	277,294

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management personnel AED'000	Associates and funds under management AED'000	Total AED'000
Balances as at December 31, 2019					
Deposits and balances due from banks	306,793	–	–	–	306,793
Derivative financial instruments – assets	1,176,267	–	–	–	1,176,267
Investment securities	18,620,617	–	–	159,190	18,779,807
Loans and advances to customers	32,432,869	783,339	18,568	193,128	33,427,904
Other assets	319,617	6,265	26	2,969	328,877
Derivative financial instruments – liabilities	589,971	–	–	–	589,971
Deposits from customers	89,408,432	1,439,496	31,026	43,442	90,922,396
Borrowings	57,332	–	–	–	57,332
Other liabilities	553,604	4,693	15,728	286	574,311
Capital notes	6,000,000	–	–	–	6,000,000
Commitments and contingent liabilities	15,662,408	191,355	2,329	29,100	15,885,192
Transactions for the year ended December 31, 2019					
Interest income, Islamic financing income, fees and other income	1,110,081	45,999	734	26,377	1,183,191
Interest expense and Islamic profit distribution	1,690,854	6,462	341	2,968	1,700,625
Derivative income	219,114	–	–	–	219,114
Share in profit of associates	–	–	–	17,765	17,765
Coupons paid on capital notes	265,056	–	–	–	265,056

As at December 31, 2020, Funds under management held 2,204,448 shares (December 31, 2019: 3,235,817 shares) of the Bank. During the year, the Bank paid dividend of AED 1,232 thousand (2019: AED 898 thousand) to these Funds.

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

	2020 AED'000	2019 AED'000
Short term benefits	27,680	29,176
Post-employment benefits	2,613	2,578
Variable pay benefits	24,788	29,788
Total remuneration	55,081	61,542
Board of Directors fees and expenses	28,028	13,143

In addition to the above, the key management personnel were granted long term deferred compensation of AED 21,863 thousand (2019 – AED 26,763 thousand).

BUSINESS COMBINATIONS UNDER COMMON CONTROL

During the previous year, the Bank was involved in business combinations under common control. Refer note 53 for details.

38. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Letters of credit	4,926,407	7,239,078
Guarantees	53,481,072	60,261,667
Commitments to extend credit – revocable (*)	15,337,714	20,932,010
Commitments to extend credit – irrevocable	19,281,493	20,214,940
Total commitments on behalf of customers	93,026,686	108,647,695
Commitments for future capital expenditure	506,647	486,941
Commitments to invest in investment securities	3,012	1,757
Total commitments and contingent liabilities	93,536,345	109,136,393

(*) includes AED 7,259,002 thousand (December 31, 2019: AED 7,907,139 thousand) for undrawn credit card limits

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

CREDIT-RELATED COMMITMENTS

Credit-related commitments include commitments to extend credit, letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

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

39. Operating segments

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

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

Consumer banking	comprises of retail, wealth management, Islamic financing and investment in associates. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and fund management activities.
Wholesale banking	comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.
Investments and treasury	comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.
Property management	comprises of real estate management and engineering service operations of subsidiaries and rental income earned from properties of the Group.

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

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2020:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,491,214	2,298,403	2,088,538	27,101	7,905,256
Net income from Islamic financing and investing products	1,056,389	376,320	438,220	6,751	1,877,680
Total net interest income and income from Islamic financing and investing products	4,547,603	2,674,723	2,526,758	33,852	9,782,936
Non-interest income	743,307	971,685	772,710	200,609	2,688,311
Operating income	5,290,910	3,646,408	3,299,468	234,461	12,471,247
Operating expenses	(2,863,964)	(1,199,756)	(284,137)	(178,484)	(4,526,341)
Operating profit before impairment charge	2,426,946	2,446,652	3,015,331	55,977	7,944,906
Impairment charge	(1,383,946)	(2,529,234)	(79,732)	–	(3,992,912)
Operating profit/(loss) after impairment charge	1,043,000	(82,582)	2,935,599	55,977	3,951,994
Share in profit of associates	18,005	–	–	–	18,005
Profit/(loss) before taxation	1,061,005	(82,582)	2,935,599	55,977	3,969,999
Overseas income tax charge	(5,937)	(19,114)	(95,306)	–	(120,357)
Loss from discontinued operations	(25,413)	(15,352)	–	–	(40,765)
Profit/(loss) for the year	1,029,655	(117,048)	2,840,293	55,977	3,808,877
As at December 31, 2020					
Total assets	109,176,079	160,736,291	139,518,474	1,725,457	411,156,301
Total liabilities	94,638,057	102,498,044	156,735,846	682,966	354,554,913

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2019:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,157,262	2,280,357	2,032,909	42,251	7,512,779
Net income from Islamic financing and investing products	881,559	447,442	391,140	8,216	1,728,357
Total net interest income and income from Islamic financing and investing products	4,038,821	2,727,799	2,424,049	50,467	9,241,136
Non-interest income	997,209	954,099	346,513	183,183	2,481,004
Operating income	5,036,030	3,681,898	2,770,562	233,650	11,722,140
Operating expenses	(2,744,556)	(1,289,816)	(321,620)	(161,687)	(4,517,679)
Operating profit before impairment charge	2,291,474	2,392,082	2,448,942	71,963	7,204,461
Impairment charge	(1,230,556)	(1,041,856)	(79,642)	–	(2,352,054)
Operating profit after impairment charge	1,060,918	1,350,226	2,369,300	71,963	4,852,407
Share in profit of associates	17,765	–	–	–	17,765
Profit before taxation	1,078,683	1,350,226	2,369,300	71,963	4,870,172
Overseas income tax charge	(10,323)	(12,092)	(18,511)	–	(40,926)
Loss from discontinued operations	(9,243)	(27,516)	–	–	(36,759)
Profit for the year	1,059,117	1,310,618	2,350,789	71,963	4,792,487
As at December 31, 2019 (restated)(Note 53)					
Total assets	110,473,825	172,749,335	120,176,843	1,694,822	405,094,825
Total liabilities	85,941,571	128,805,940	134,561,783	127,739	349,437,033

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

OTHER DISCLOSURES

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

	External		Inter-segment	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Consumer banking	6,230,253	6,543,825	(939,343)	(1,507,795)
Wholesale banking	4,997,466	5,295,885	(1,351,058)	(1,613,987)
Investments and treasury	1,045,667	(265,408)	2,253,801	3,035,970
Property management	197,861	147,838	36,600	85,812
Total operating income	12,471,247	11,722,140	–	–

GEOGRAPHICAL INFORMATION

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its branches and subsidiaries outside UAE. The information regarding the Group's revenue from continuing operations and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Income				
Net interest income and income from Islamic financing and investing products	9,466,546	9,091,578	316,390	149,558
Non-interest income	2,619,234	2,420,230	69,077	60,774
Non-current assets				
Investment in associates	255,868	387,627	–	20,141
Investment properties	1,631,673	1,684,448	12,283	9,259
Property and equipment, net	1,886,698	2,023,029	171,877	174,542
Intangible assets (restated) (Note 53)	7,258,033	7,353,342	132,258	121,000

40. Financial instruments

CATEGORIES OF FINANCIAL INSTRUMENTS

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9 as at December 31, 2020.

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	–	–	–	–	29,601,607	29,601,607
Deposits and balances due from banks, net	–	–	–	–	21,535,442	21,535,442
Derivative financial instruments	8,433,999	2,712,397	–	–	–	11,146,396
Investment securities	–	–	65,577,008	975,148	21,653,828	88,205,984
Loans and advances to customers, net	–	–	–	–	238,975,702	238,975,702
Other assets, net	–	–	–	–	9,990,646	9,990,646
Total financial assets	8,433,999	2,712,397	65,577,008	975,148	321,757,225	399,455,777
Liabilities						
Due to banks	–	–	–	–	8,222,071	8,222,071
Derivative financial instruments	7,956,271	2,898,777	–	–	–	10,855,048
Deposits from customers	–	–	–	–	251,395,457	251,395,457
Euro commercial paper	–	–	–	–	4,753,593	4,753,593
Borrowings	–	–	–	–	65,396,044	65,396,044
Other liabilities	–	–	–	–	12,398,648	12,398,648
Total financial liabilities	7,956,271	2,898,777	–	–	342,165,813	353,020,861

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9 as at December 31, 2019.

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	–	–	–	–	24,904,966	24,904,966
Deposits and balances due from banks, net	–	–	–	–	23,064,974	23,064,974
Derivative financial instruments	5,566,426	1,223,291	–	–	–	6,789,717
Investment securities (*)	–	–	72,616,875	825,787	–	73,442,662
Loans and advances to customers, net (*)	–	–	–	–	247,833,080	247,833,080
Other assets, net	–	–	–	–	16,611,092	16,611,092
Total financial assets	5,566,426	1,223,291	72,616,875	825,787	312,414,112	392,646,491
Liabilities						
Due to banks	–	–	–	–	5,732,779	5,732,779
Derivative financial instruments	5,456,475	1,493,416	–	–	–	6,949,891
Deposits from customers	–	–	–	–	262,093,782	262,093,782
Euro commercial paper	–	–	–	–	2,062,338	2,062,338
Borrowings	–	–	–	–	51,882,054	51,882,054
Other liabilities	–	–	–	–	18,848,425	18,848,425
Total financial liabilities	5,456,475	1,493,416	–	–	340,619,378	347,569,269

(*) restated – refer note 53

41. Fair value hierarchy

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

QUOTED MARKET PRICES – LEVEL 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

VALUATION TECHNIQUES USING OBSERVABLE INPUTS – LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing

techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

Financial instruments and investment properties are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

- a) Private equity instruments — using the latest available net book value; and

- b) Funds — based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Refer note 13 in respect of valuation methodology used for investment properties.

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements do not materially differ from their fair values.

		Level 1	Level 2	Level 3		
	Note	Quoted market prices AED'000	Observable inputs AED'000	Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
As at December 31, 2020						
Assets at fair value						
Derivative financial instruments	9	—	11,146,396	—	11,146,396	11,146,396
Investment securities	10					
— At fair value through other comprehensive income		63,930,488	2,415,687	205,981	66,552,156	66,552,156
— At amortised cost		22,027,493	—	—	22,027,493	21,653,828
Investment properties	13	—	—	1,643,956	1,643,956	1,643,956
Total		85,957,981	13,562,083	1,849,937	101,370,001	100,996,336
Liabilities at fair value						
Derivative financial instruments	9	—	10,855,048	—	10,855,048	10,855,048
Liabilities at amortised cost						
Euro commercial paper	19	—	4,757,186	—	4,757,186	4,753,593
Borrowings	20	18,825,773	47,330,978	—	66,156,751	65,396,044
Total		18,825,773	62,943,212	—	81,768,985	81,004,685
As at December 31, 2019 (restated) (Note 53)						
Assets at fair value						
Derivative financial instruments	9	15	6,789,702	—	6,789,717	6,789,717
Investment securities	10					
— At fair value through other comprehensive income		65,909,746	7,309,989	222,927	73,442,662	73,442,662
Investment properties	13	—	—	1,693,707	1,693,707	1,693,707
Total		65,909,761	14,099,691	1,916,634	81,926,086	81,926,086
Liabilities at fair value						
Derivative financial instruments	9	—	6,949,891	—	6,949,891	6,949,891
Liabilities at amortised cost						
Euro commercial paper	19	—	2,074,605	—	2,074,605	2,062,338
Borrowings	20	18,728,489	32,244,310	—	50,972,799	51,882,054
Total		18,728,489	41,268,806	—	59,997,295	60,894,283

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Reconciliation showing the movement in fair values of Level 3 investments designated at FVTOCI is as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Opening balance	222,927	251,843
Acquired on business combinations (restated) (Note 53)	—	37,554
Purchases, net during the year	—	18,119
Disposals including capital refunds during the year	(2,857)	(39,620)
Adjustment through other comprehensive income during the year	(14,089)	(44,969)
Closing balance	205,981	222,927

The purchases under Level 3 category represents mainly capital contributions made during the year into private equity funds under existing capital commitments.

The disposals during the year mainly represents sale of certain investments and capital refunds distributed by the private equity fund managers out of sale of underlying investments held in the funds.

Loss of AED 1 thousand (2019 — gains of AED 23,853 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

There were no significant transfers between Level 1 and Level 2 investments and no change in valuation techniques used during the year.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significant lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

UNCONSOLIDATED STRUCTURED ENTITY

Level 1 financial instruments include the Group's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2020 was AED 155,297 thousand (December 31, 2019 — AED 159,190 thousand). The Bank has not extended any revocable overdraft facilities to these Funds as at December 31,

2020 (December 31, 2019 — AED 28,365 thousand out of which AED 185 thousand was utilised and outstanding). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended, if any.

42. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through various Board level committees; namely Board Risk & Executive Committee (BREC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BREC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud, data management, reputational, information and physical security risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the management risk committees and ensuring that the Group's risk governance is supportive of prudent risk taking at all levels in the Group. The BREC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer (CRO) and Group Chief Credit Officer (CCO) along with regular reports on risk management, including portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BREC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

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

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee (ALCO), Management Risk & Credit Committee (MRCC) and Management Recoveries Committee (MRC). The Risk Management function headed by the Group's CRO reports via matrix independently to BREC and CEO. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit policy, market, liquidity, operational, fraud, compliance, data management and information security risk. The Risk function is also independent of the credit underwriting division which is headed by the Group Chief Credit Officer.

BACC provides assistance to the Board to fulfill its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, adherence with legal and regulatory requirements and internal policies and internal control over financial reporting. BACC also has oversight over the Bank's compliance activities (financial crime, anti-money laundry, know your customer requirements, etc.) and CBUAE standards and regulations that affect the operations of the Bank.

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

43. Credit risk management

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk,

geographical risk and sector risk for risk management purposes.

The Group's risk and credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location, etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.
- Managing the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group wide credit policies and standards are approved by BREC. These govern all delegated lending authorities and include policies, standards, metrics,

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for each portfolio segment. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

RISK RATINGS

INTERNAL CREDIT RISK RATINGS

In order to measure credit risk, the Group Risk Management has developed credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises of ten categories and 21 risk grades. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The Group uses 9 rating models to effectively rate customers based on the customer segment. These rating models have been developed internally and validated on a regular

basis by both internal and external validation teams. The rating models have been calibrated based on ADCB's default rate history.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Financial ratios — absolute values, peer analysis;
- Industry risk;
- Qualitative factors such as management strength, concentrations, etc;
- Payment record, including payment ratios and ageing analysis;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics, etc.; and
- For corporate exposures: information obtained by periodic review of customer files including review of audited financial statements and market data.

The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides an indicative mapping of the Group's internal credit risk grades to external ratings.

Rating category	Moody's	S&P	Fitch	Description
1	Aaa	AAA	AAA	Investment grade
2	Aa1 – Aa3	AA+ – AA-	AA+ – AA-	Investment grade
3	A1 – A3	A+ – A-	A+ – A-	Investment grade
4	Baa1 – Baa3	BBB+ – BBB-	BBB+ – BBB-	Investment grade
5	Ba1 – Ba3	BB+ – BB-	BB+ – BB-	Non-investment grade
6	B1 – B3	B+ – B-	B+ – B-	Non-investment grade
7	Caa1 – Caa3	CCC – CCC-	CCC – C	Watch list
8–10	Default	Default	Default	Default

Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1–7 are assigned to performing customers or accounts while credit grades 8–10 are assigned to non-performing or defaulting customers.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. The Bank also uses these internal ratings as an input to the IFRS 9 ECL model and these ratings are also used to determine the staging of the customer.

Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but factors used to grade

a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade. The basis for determining ECL is as follows:

IFRS 9 Staging	Basis for determining ECL
1	12 months ECL
2	Lifetime ECL
3	Credit impairment based on discounted cash flow model

The quality of credit risk exposure is disclosed in note 43.2.

EXTERNAL CREDIT RISK RATINGS

The table below presents the external credit ratings of the Group's deposits and balances due from banks, gross and investment securities, gross based on S&P's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever S&P's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

Ratings	As at December 31, 2020			As at December 31, 2019	
	Deposits and balances due from banks, gross AED'000	Bond securities at amortised cost, gross AED'000	Bond securities designated at FVTOCI AED'000	Deposits and balances due from banks, gross AED'000	Bond securities designated at FVTOCI AED'000
AAA to AA-	2,111,884	10,343,613	26,466,292	1,105,612	20,443,712
A+ to A-	8,062,200	9,264,715	20,977,533	8,819,203	25,917,450
BBB+ to BBB-	3,288,547	1,050,940	7,883,971	3,616,247	10,468,670
BB+ to B-	7,592,772	781,905	7,651,056	8,707,552	8,756,621
CCC+ to C-	—	—	—	482	—
UAE Sovereigns	—	224,501	2,432,760	—	5,958,193
Unrated	526,608	—	165,396	865,840	1,072,229
	21,582,011	21,665,674	65,577,008	23,114,936	72,616,875

Internal ratings of UAE Sovereigns and unrated bond securities with comparable external ratings are as follows:

	Internal rating	External rating	2020 AED'000	2019 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	2,657,261	5,958,193
Unrated	Grade 3- to 4	A-	—	418,929
	Grade 5 to 6	BB+ to BB	42,834	443,075
	Grade 7	CCC	—	210,225
	Grade 8	D	122,562	—
			2,822,657	7,030,422

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

SIGNIFICANT INCREASE IN CREDIT RISK

As explained in note 3.8(h), the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative. The SICR indicators per type of asset and the rating deterioration that are determined to be significant are summarised below.

SICR — FROM STAGE 1 TO STAGE 2 FOR NON-RETAIL LOANS AND ADVANCES, DEBT INSTRUMENTS AND MONEY MARKET INSTRUMENTS

Grade/facility status	SICR indicators
Investment grade	6 notches rating downgrade
Non-investment grade	3 notches rating downgrade
Across investment/non-investment grade	3 notches rating downgrade across investment to non-investment grade.
Credit restructured	Restructured for credit reasons in the last 12 months
Watch list	Flagged as watch list or accounts that are more than 30 days past due.
Others	All other criteria as per Central Bank including uncollateralized bullet loans.

SICR — FROM STAGE 1 TO STAGE 2 FOR RETAIL LOANS AND ADVANCES AND CREDIT CARDS

Criteria to determine whether credit risk has increased significantly are as follows:

- greater than 30 DPD;
- at least three times 30 DPD or more in the last 12 months;
- at least two times 60 DPD or more in the last 12 months.

In addition to above rating deterioration criteria, the Group also considers other qualitative SICR indicators as suggested in IFRS 9 and CBUAE guidelines.

DEFAULT — STAGE 3

	SICR indicators
Non retail loans and advances	Sub-standard, doubtful or loss flagging — this includes all accounts that are over 90 days past due
Debt instruments and money market instruments	Sub-standard, doubtful or loss flagging
Retail loans and advances and credit cards	90 days past due

Exposure other than to a Sovereign with a rating of A (equivalent internal rating of 3) or better and Sovereign exposures with investment grade rating from an External Rating Agency (BBB- or better) will be classified as low credit risk (LCR).

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

In addition, the Group also follows a probation period for backward transition of staging:

An account has to be in stage 2 for a minimum of 12 months (cure period) for it to move to stage 1 and an account in stage 3 has to move to stage 2 before moving to stage 1.

The Group also employs customer level staging for high risk customers i.e. if a customer is rated 6+ or worse, all the accounts of the customer are assigned the worse staging. The top 70% of the non retail exposures are individually assessed for any SICR not reflected in the ratings.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit risk are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Group uses forward-looking macro-economic in its measurement of ECL. The Group Chief Economist provides the macro-economic forecasts and scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and has macro-economic models that forecast relationships between macro-economic variables and credit losses.

During the year, the Group changed its macro-economic variables forecast in line with the prevailing market conditions. The Group also reviewed its CCF parameters, LGD models and made appropriate changes. The Group also reviewed its IFRS 9 macro-economic models to confirm the models were fit for purpose.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2020 for the years 2020 to 2023, for UAE which is the country where the Group operates and therefore is the country that has a material impact on ECLs.

List of macro variables used	Definition	Used in	Range
Oil price, Brent USD	Price per barrel	ADCB UAE	Between USD 42 and USD 64
Real GDP growth	% change	ADCB UAE	Between -6.5% and 3.3%
Real non-oil GDP growth	% change	ADCB UAE	Between -5.7% and 3.5%
Abu Dhabi real estate sale prices	% change	ADCB UAE	Between -6.5% and 1%
Consumer inflation	% annual average	ADCB UAE	Between -2.2% and 1%
Dubai real estate sale prices	% change	ADCB UAE	Between -8% and 0%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years.

MEASUREMENT OF ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a

fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level.

The ECL calculation for accounting purposes is different to the provision calculation for regulatory purposes, although many inputs used are similar. The Group has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

CREDIT RISK DISCLOSURE

43.1 MAXIMUM EXPOSURE TO CREDIT RISK

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

The following table presents the maximum exposure of credit risk for amortised cost financial instruments, derivative financial instruments, investment securities (bonds) designated at FVTOCI and off-balance sheet financial instruments as at December 31, 2020 and 2019, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRM AED'000	Maximum credit risk exposure AED'000
As at December 31, 2020					
Cash and balances with central banks, net	29,601,607	–	27,919,572	–	27,919,572
Deposits and balances due from banks, net	21,535,442	–	21,535,442	–	21,535,442
Derivative financial instruments	11,146,396	–	11,146,396	7,973,674	3,172,722
Investment securities	88,205,984	–	87,230,836	–	87,230,836
Loans and advances to customers, net	238,975,702	77,688,972	316,664,674	144,571,975	172,092,699
Other assets, net	10,081,413	–	9,988,498	4,951,520	5,036,978
Total	399,546,544	77,688,972	474,485,418	157,497,169	316,988,249
As at December 31, 2019					
Cash and balances with central banks, net	24,904,966	–	23,074,738	–	23,074,738
Deposits and balances due from banks, net	23,064,974	–	23,064,974	–	23,064,974
Derivative financial instruments	6,789,717	–	6,789,717	4,954,497	1,835,220
Investment securities (*)	73,442,662	–	72,616,875	–	72,616,875
Loans and advances to customers, net (*)	247,833,080	87,715,685	335,548,765	144,861,235	190,687,530
Other assets, net	16,750,208	–	16,607,641	8,695,613	7,912,028
Total	392,785,607	87,715,685	477,702,710	158,511,345	319,191,365

(*) restated – refer note 53

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

43.2 GROSS EXPOSURE

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As at December 31, 2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1–4	153,592,666	1,913,110	–	–	155,505,776
Grades 5–6	83,568,899	9,317,679	15,946	–	92,902,524
Grade 7	4,358,239	9,226,163	169,948	–	13,754,350
Grades 8–10	–	–	14,697,274	4,213,043	18,910,317
Unrated	47,736,963	1,780,206	924,539	112,902	50,554,610
Gross financial instruments carried at amortised cost	289,256,767	22,237,158	15,807,707	4,325,945	331,627,577
Debt instruments designated at FVTOCI					
Grades 1–4	57,732,216	–	–	–	57,732,216
Grades 5–6	6,395,793	1,326,437	–	–	7,722,230
Grade 8–10	–	–	122,562	–	122,562
Gross debt instruments designated at FVTOCI	64,128,009	1,326,437	122,562	–	65,577,008
Commitments and contingent liabilities					
Grades 1–4	39,247,234	127,341	–	–	39,374,575
Grades 5–6	26,583,446	2,597,546	–	–	29,180,992
Grade 7	5,788,941	2,267,613	–	–	8,056,554
Grades 8–10	–	–	–	590,196	590,196
Unrated	486,655	–	–	–	486,655
Total commitments and contingent liabilities	72,106,276	4,992,500	–	590,196	77,688,972

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

As at December 31, 2019	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost (restated) (Note 53)					
Grades 1–4	142,813,914	459,862	–	–	143,273,776
Grades 5–6	84,333,357	9,937,227	449,146	–	94,719,730
Grade 7	4,866,580	9,255,035	275,941	–	14,397,556
Grades 8–10	–	–	6,882,654	3,726,497	10,609,151
Unrated	52,031,291	1,952,275	866,816	132,739	54,983,121
Gross financial instruments carried at amortised cost	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334
Debt instruments designated at FVTOCI					
Grades 1–4	62,711,131	–	–	–	62,711,131
Grades 5–6	7,165,943	2,529,575	–	–	9,695,518
Grade 7	–	–	210,226	–	210,226
Gross debt instruments designated at FVTOCI	69,877,074	2,529,575	210,226	–	72,616,875
Commitments and contingent liabilities					
Grades 1–4	44,424,128	136,837	–	–	44,560,965
Grades 5–6	32,162,448	2,307,143	–	–	34,469,591
Grade 7	4,440,473	2,808,267	–	–	7,248,740
Grades 8–10	–	–	–	932,213	932,213
Unrated	494,498	–	–	9,678	504,176
Total commitments and contingent liabilities	81,521,547	5,252,247	–	941,891	87,715,685

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The movement of gross exposure is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2020 (*)	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334
– Transfer from stage 1 to stage 2	(7,586,560)	7,586,560	–	–	–
– Transfer from stage 1 to stage 3	(6,060,825)	–	6,060,825	–	–
– Transfer from stage 2 to stage 1	2,661,144	(2,661,144)	–	–	–
– Transfer from stage 2 to stage 3	–	(2,585,642)	2,585,642	–	–
– Transfer from stage 3 to stage 2	–	197,706	(197,706)	–	–
Other movements within the same stage	3,472,711	(604,106)	103,585	(156,495)	2,815,695
New financial assets originated/purchased	75,783,818	1,572,149	1,156,967	–	78,512,934
Financial assets derecognised	(63,058,663)	(2,872,764)	(580,559)	(268,918)	(66,780,904)
Adjustments to gross carrying value due to changes in estimated cash flows	–	–	–	892,122	892,122
Net amounts written-off	–	–	(1,795,604)	–	(1,795,604)
Balance as at December 31, 2020	289,256,767	22,237,158	15,807,707	4,325,945	331,627,577
(*) restated – refer note 53					
Debt instruments designated at FVTOCI					
Balance as at January 1, 2020	69,877,074	2,529,575	210,226	–	72,616,875
– Transfer from stage 1 to stage 2	(202,226)	202,226	–	–	–
– Transfer from stage 1 to stage 3	(83,614)	–	83,614	–	–
– Transfer from stage 2 to stage 1	216,874	(216,874)	–	–	–
Other movements within the same stage	2,308,018	16,534	(49,541)	–	2,275,011
New financial assets purchased	18,062,502	–	–	–	18,062,502
Financial assets derecognised	(26,050,619)	(1,205,024)	–	–	(27,255,643)
Net amounts written-off	–	–	(121,737)	–	(121,737)
Balance as at December 31, 2020	64,128,009	1,326,437	122,562	–	65,577,008
Commitments and contingent liabilities					
Balance as at January 1, 2020	81,521,547	5,252,247	–	941,891	87,715,685
– Transfer from stage 1 to stage 2	(1,985,683)	1,985,683	–	–	–
– Transfer from stage 2 to stage 1	812,148	(812,148)	–	–	–
Other movements within the same stage	(4,799,411)	(443,672)	–	(26,185)	(5,269,268)
New financial assets originated/purchased	19,910,589	654,281	–	–	20,564,870
Financial assets derecognised	(23,352,914)	(1,643,891)	–	(325,510)	(25,322,315)
Balance as at December 31, 2020	72,106,276	4,992,500	–	590,196	77,688,972

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2019	204,768,887	16,374,185	5,227,162	–	226,370,234
Addition on business combinations (*)	94,905,118	–	–	4,250,372	99,155,490
– Transfer from stage 1 to stage 2	(6,497,075)	6,497,075	–	–	–
– Transfer from stage 1 to stage 3	(2,865,333)	–	2,865,333	–	–
– Transfer from stage 2 to stage 1	1,297,572	(1,297,572)	–	–	–
– Transfer from stage 2 to stage 3	–	(2,537,089)	2,537,089	–	–
– Transfer from stage 3 to stage 1	1,030	–	(1,030)	–	–
– Transfer from stage 3 to stage 2	–	51,556	(51,556)	–	–
Other movements within the same stage	(11,191,142)	1,914,111	(17,020)	(252,176)	(9,546,227)
New financial assets originated/purchased	55,931,880	1,886,818	87,268	–	57,905,966
Financial assets derecognised	(52,305,795)	(1,284,685)	(248,058)	(97,295)	(53,935,833)
Net amounts written-off	–	–	(1,924,631)	(41,665)	(1,966,296)
Balance as at December 31, 2019 (*)	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334

(*) restated – refer note 53

Debt instruments designated at FVTOCI

Balance as at January 1, 2019	50,569,471	1,390,684	–	–	51,960,155
Addition on business combinations	20,164,428	–	–	–	20,164,428
– Transfer from stage 1 to stage 2	(1,174,443)	1,174,443	–	–	–
– Transfer from stage 2 to stage 3	–	(251,845)	251,845	–	–
Other movements within the same stage	1,560,563	216,293	(41,619)	–	1,735,237
New financial assets purchased	29,443,129	–	–	–	29,443,129
Financial assets derecognised	(30,686,074)	–	–	–	(30,686,074)
Balance as at December 31, 2019	69,877,074	2,529,575	210,226	–	72,616,875

Commitments and contingent liabilities

Balance as at January 1, 2019	45,821,131	2,703,729	–	–	48,524,860
Addition on business combinations	37,820,672	–	–	1,185,966	39,006,638
– Transfer from stage 1 to stage 2	(2,152,154)	2,152,154	–	–	–
– Transfer from stage 2 to stage 1	300,145	(300,145)	–	–	–
Other movements within the same stage	(5,379,011)	1,004,548	–	(244,075)	(4,618,538)
New financial assets originated/purchased	20,772,101	525,500	–	–	21,297,601
Financial assets derecognised	(15,661,337)	(833,539)	–	–	(16,494,876)
Balance as at December 31, 2019	81,521,547	5,252,247	–	941,891	87,715,685

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

43.3 EXPECTED CREDIT LOSSES

The table below summarises impairment allowance as at year end per class of exposure/asset, internal rating and stage:

As at December 31, 2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1–4	27,709	4,381	–	–	32,090
Grades 5–6	328,040	634,754	8,819	–	971,613
Grade 7	204,354	2,292,375	14,573	–	2,511,302
Grades 8–10	–	–	6,254,976	544,740	6,799,716
Unrated	317,706	414,582	483,213	24,313	1,239,814
Allowance for impairment	877,809	3,346,092	6,761,581	569,053	11,554,535
Debt instruments designated at FVTOCI					
Grades 1–4	13,911	–	–	–	13,911
Grades 5–6	35,482	23,116	–	–	58,598
Grade 8–10	–	–	157,311	–	157,311
Allowance for impairment	49,393	23,116	157,311	–	229,820
Commitments and contingent liabilities					
Grades 1–4	9,308	557	–	–	9,865
Grades 5–6	79,488	115,292	–	–	194,780
Grade 7	60,128	148,340	–	–	208,468
Grades 8–10	–	–	–	131,603	131,603
Unrated	198	–	–	–	198
Allowance for impairment	149,122	264,189	–	131,603	544,914
Total allowance for impairment	1,076,324	3,633,397	6,918,892	700,656	12,329,269

As at December 31, 2019	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1–4	34,265	2,082	–	–	36,347
Grades 5–6	252,428	291,212	23,118	–	566,758
Grade 7	160,877	2,409,469	26,600	–	2,596,946
Grades 8–10	–	–	2,926,811	72,475	2,999,286
Unrated	393,894	285,261	524,409	–	1,203,564
Allowance for impairment	841,464	2,988,024	3,500,938	72,475	7,402,901
Debt instruments designated at FVTOCI					
Grades 1–4	10,066	–	–	–	10,066
Grades 5–6	16,124	27,708	–	–	43,832
Grade 7	–	–	206,519	–	206,519
Allowance for impairment	26,190	27,708	206,519	–	260,417
Commitments and contingent liabilities					
Grades 1–4	32,257	5,882	–	–	38,139
Grades 5–6	203,114	127,977	–	–	331,091
Grade 7	197,135	480,367	–	–	677,502
Grades 8–10	–	–	–	383,617	383,617
Unrated	731	–	–	1,283	2,014
Allowance for impairment	433,237	614,226	–	384,900	1,432,363
Total allowance for impairment	1,300,891	3,629,958	3,707,457	457,375	9,095,681

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Allocation of impairment allowance for the year ended December 31, 2020 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 7)	465	–	–	–	465
Deposits and balances due from banks (Note 8)	45,721	848	–	–	46,569
Investment securities at amortised cost (Note 10)	11,846	–	–	–	11,846
Investment securities designated at FVTOCI (Note 10) (*)	49,393	23,116	157,311	–	229,820
Loans and advances to customers (Note 11)	815,455	3,343,489	6,750,936	567,648	11,477,528
Other assets (Note 14)	4,322	1,755	10,645	1,405	18,127
Letters of credit, guarantees and other commitments (Note 21)	149,122	264,189	–	131,603	544,914
Total allowance for impairment	1,076,324	3,633,397	6,918,892	700,656	12,329,269

(*) recognised under "Revaluation reserve of investments designated at FVTOCI"

Allocation of impairment allowance for the year ended December 31, 2019 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 7)	247	–	–	–	247
Deposits and balances due from banks (Note 8)	45,726	4,236	–	–	49,962
Investment securities designated at FVTOCI (Note 10) (*)	26,190	27,708	206,519	–	260,417
Loans and advances to customers (Note 11)	787,274	2,982,378	3,492,708	71,050	7,333,410
Other assets (Note 14)	8,217	1,410	8,230	1,425	19,282
Letters of credit, guarantees and other commitments (Note 21)	433,237	614,226	–	384,900	1,432,363
Total allowance for impairment	1,300,891	3,629,958	3,707,457	457,375	9,095,681

(*) recognised under "Revaluation reserve of investments designated at FVTOCI"

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The movement in impairment allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2020	841,464	2,988,024	3,500,938	72,475	7,402,901
– Transfer from stage 1 to stage 2	(102,752)	102,752	–	–	–
– Transfer from stage 1 to stage 3	(35,947)	–	35,947	–	–
– Transfer from stage 2 to stage 1	71,222	(71,222)	–	–	–
– Transfer from stage 2 to stage 3	–	(754,553)	754,553	–	–
– Transfer from stage 3 to stage 2	–	42,934	(42,934)	–	–
Other movements within the same stage	111,768	922,468	3,579,433	(393,742)	4,219,927
New financial assets originated/purchased	161,223	144,632	909,284	–	1,215,139
Financial assets derecognised	(204,120)	(79,934)	(186,652)	(1,802)	(472,508)
Changes to methodologies, assumptions and risk parameters (*)	34,951	50,991	6,616	–	92,558
Gross (release)/charge for the year	36,345	358,068	5,056,247	(395,544)	5,055,116
Recoveries	–	–	(284,568)	–	(284,568)
Net (release)/charge for the year	36,345	358,068	4,771,679	(395,544)	4,770,548
Adjustments to gross carrying value	–	–	–	892,122	892,122
Net amounts written-off	–	–	(1,511,036)	–	(1,511,036)
Balance as at December 31, 2020	877,809	3,346,092	6,761,581	569,053	11,554,535

Debt instruments designated at FVTOCI

Balance as at January 1, 2020	26,190	27,708	206,519	–	260,417
– Transfer from stage 1 to stage 2	(418)	418	–	–	–
– Transfer from stage 1 to stage 3	(172)	–	172	–	–
– Transfer from stage 2 to stage 1	487	(487)	–	–	–
Other movements within the same stage	3,712	8,431	72,357	–	84,500
New financial assets originated/purchased	27,067	–	–	–	27,067
Financial assets derecognised	(7,092)	(11,170)	–	–	(18,262)
Changes to methodologies, assumptions and risk parameters (*)	(381)	(1,784)	–	–	(2,165)
Net charge/(release) for the year	23,203	(4,592)	72,529	–	91,140
Net amounts written-off	–	–	(121,737)	–	(121,737)
Balance as at December 31, 2020	49,393	23,116	157,311	–	229,820

Commitments and contingent liabilities

Balance as at January 1, 2020	433,237	614,226	–	384,900	1,432,363
– Transfer from stage 1 to stage 2	(54,157)	54,157	–	–	–
– Transfer from stage 2 to stage 1	51,940	(51,940)	–	–	–
Other movements within the same stage	91,163	192,289	–	(124,247)	159,205
New financial assets originated/purchased	25,995	76,183	–	–	102,178
Financial assets derecognised	(200,300)	(240,681)	–	(129,050)	(570,031)
Changes to methodologies, assumptions and risk parameters (*)	(198,756)	(380,045)	–	–	(578,801)
Net release for the year	(284,115)	(350,037)	–	(253,297)	(887,449)
Balance as at December 31, 2020	149,122	264,189	–	131,603	544,914

(*) included in "Recoveries/modifications during the year" in note 33

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2019	851,912	2,987,774	2,935,970	–	6,775,656
Addition on business combinations	5,184	–	–	38,985	44,169
– Transfer from stage 1 to stage 2	(44,253)	44,253	–	–	–
– Transfer from stage 1 to stage 3	(56,757)	–	56,757	–	–
– Transfer from stage 2 to stage 1	114,947	(114,947)	–	–	–
– Transfer from stage 2 to stage 3	–	(540,828)	540,828	–	–
– Transfer from stage 3 to stage 1	531	–	(531)	–	–
– Transfer from stage 3 to stage 2	–	15,825	(15,825)	–	–
Other movements within the same stage	(65,069)	520,308	1,803,071	75,155	2,333,465
New financial assets originated/purchased	248,384	151,910	264,689	–	664,983
Financial assets derecognised	(142,112)	(67,510)	(159,292)	–	(368,914)
Changes to methodologies, assumptions and risk parameters (*)	(71,303)	(8,761)	(97)	–	(80,161)
Gross (release)/charge for the year	(15,632)	250	2,489,600	75,155	2,549,373
Recoveries	–	–	(234,525)	–	(234,525)
Net (release)/charge for the year	(15,632)	250	2,255,075	75,155	2,314,848
Net amounts written-off	–	–	(1,690,107)	(41,665)	(1,731,772)
Balance as at December 31, 2019	841,464	2,988,024	3,500,938	72,475	7,402,901

Debt instruments designated at FVTOCI

Balance as at January 1, 2019	23,932	159,503	–	–	183,435
– Transfer from stage 1 to stage 2	(920)	920	–	–	–
– Transfer from stage 2 to stage 3	–	(129,919)	129,919	–	–
Other movements within the same stage	4,354	(131)	76,600	–	80,823
New financial assets originated/purchased	7,378	–	–	–	7,378
Financial assets derecognised	(2,697)	–	–	–	(2,697)
Changes to methodologies, assumptions and risk parameters (*)	(5,857)	(2,665)	–	–	(8,522)
Net charge/(release) for the year	2,258	(131,795)	206,519	–	76,982
Balance as at December 31, 2019	26,190	27,708	206,519	–	260,417

Commitments and contingent liabilities

Balance as at January 1, 2019	112,712	237,040	–	–	349,752
Addition on business combinations	625,643	–	–	496,744	1,122,387
– Transfer from stage 1 to stage 2	(318,547)	318,547	–	–	–
– Transfer from stage 2 to stage 1	6,181	(6,181)	–	–	–
Other movements within the same stage	(13,564)	43,853	–	(111,844)	(81,555)
New financial assets originated/purchased	72,291	73,899	–	–	146,190
Financial assets derecognised	(28,479)	(55,053)	–	–	(83,532)
Changes to methodologies, assumptions and risk parameters (*)	(23,000)	2,121	–	–	(20,879)
Net (release)/charge for the year	(305,118)	377,186	–	(111,844)	(39,776)
Balance as at December 31, 2019	433,237	614,226	–	384,900	1,432,363

(*) included in "Recoveries/modifications during the year" in note 33

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

43.4 CONCENTRATION OF CREDIT RISK

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

(a) CREDIT RISK CONCENTRATION BY GEOGRAPHICAL SECTOR

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2020								
Assets								
Balances with central banks, net	26,978,157	239,826	575,784	125,805	–	–	–	27,919,572
Deposits and balances due from banks, net	6,529,617	2,627,959	1,243,430	3,247,312	5,708,785	751,598	1,426,741	21,535,442
Derivative financial instruments	3,932,857	140,605	–	5,086	6,685,053	–	382,795	11,146,396
Investment securities — bonds	40,979,594	22,925,664	4,119,168	9,907,671	2,525,456	3,000,609	3,772,674	87,230,836
Loans and advances to customers, net	222,289,019	4,662,455	5,555,642	2,099,793	2,294,123	4,248	2,070,422	238,975,702
Other assets, net	5,809,890	342,928	387,661	847,056	2,108,426	6,870	485,667	9,988,498
Total	306,519,134	30,939,437	11,881,685	16,232,723	19,321,843	3,763,325	8,138,299	396,796,446
Commitment and contingent liabilities								
	63,402,986	3,659,189	1,205,792	3,488,515	4,218,907	945,463	768,120	77,688,972
As at December 31, 2019								
Assets								
Balances with central banks, net	22,350,082	138,029	515,860	70,767	–	–	–	23,074,738
Deposits and balances due from banks, net	8,007,700	2,099,518	1,819,849	4,149,957	4,941,037	41,365	2,005,548	23,064,974
Derivative financial instruments	2,517,614	52,462	–	3,422	3,999,654	–	216,565	6,789,717
Investment securities — bonds	33,894,947	19,170,347	2,914,351	9,210,571	3,689,693	1,067,911	2,669,055	72,616,875
Loans and advances to customers, net (*)	233,336,762	4,566,708	4,873,654	2,160,415	492,784	130,939	2,271,818	247,833,080
Other assets, net	8,586,267	262,323	110,412	4,416,754	2,620,613	29,904	581,368	16,607,641
Total	308,693,372	26,289,387	10,234,126	20,011,886	15,743,781	1,270,119	7,744,354	389,987,025
Commitment and contingent liabilities								
	74,053,799	2,252,836	1,349,318	4,888,708	3,302,476	1,009,258	859,290	87,715,685

(*) restated — refer note 53

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

(b) CREDIT RISK CONCENTRATION BY ECONOMIC/INDUSTRY SECTOR

The economic activity sector composition of the loans and advances to customers is as follows:

	As at December 31, 2020			As at December 31, 2019 (restated)(Note 53)		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	276,765	128,612	405,377	203,757	51,745	255,502
Energy	1,237,753	4,461,593	5,699,346	1,645,117	1,838,315	3,483,432
Trading	6,817,285	2,267,950	9,085,235	8,698,087	1,712,628	10,410,715
Real estate investment	71,399,603	1,236,474	72,636,077	70,341,764	1,232,939	71,574,703
Hospitality	10,409,772	510,032	10,919,804	10,866,285	514,118	11,380,403
Transport and communication	2,592,290	1,343,401	3,935,691	2,841,693	1,849,401	4,691,094
Personal	53,349,371	1,501,343	54,850,714	59,679,910	1,173,687	60,853,597
Government and public sector entities	53,062,107	589,341	53,651,448	51,019,692	502,210	51,521,902
Financial institutions (*)	14,687,727	3,065,521	17,753,248	14,736,256	3,665,901	18,402,157
Manufacturing	4,280,826	1,758,761	6,039,587	5,274,291	1,983,287	7,257,578
Services	5,604,901	303,227	5,908,128	5,426,309	299,124	5,725,433
Others	9,259,063	309,512	9,568,575	9,311,793	298,181	9,609,974
	232,977,463	17,475,767	250,453,230	240,044,954	15,121,536	255,166,490
Less: Allowance for impairment			(11,477,528)			(7,333,410)
Total loans and advances to customers, net			238,975,702			247,833,080

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 27.67% of the gross loans and advances to customers (December 31, 2019 — 27.58%).

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
As at December 31, 2020						
Assets						
Balances with central banks, net	–	–	–	27,919,572	–	27,919,572
Deposits and balances due from banks, net	–	–	–	–	21,535,442	21,535,442
Derivative financial instruments	932,217	537,132	1,070,569	875,948	7,730,530	11,146,396
Investment securities — bonds	3,327,393	–	22,045,655	52,417,750	9,440,038	87,230,836
Other assets, net	6,768,855	486,574	249,464	393,826	2,089,779	9,988,498
Total	11,028,465	1,023,706	23,365,688	81,607,096	40,795,789	157,820,744
Commitment and contingent liabilities						
Commitment and contingent liabilities	44,137,409	1,886,025	19,118,877	1,403,190	11,143,471	77,688,972
As at December 31, 2019						
Assets						
Balances with central banks, net	–	–	–	23,074,738	–	23,074,738
Deposits and balances due from banks, net	–	–	–	–	23,064,974	23,064,974
Derivative financial instruments	624,362	231,344	821,230	430,692	4,682,089	6,789,717
Investment securities — bonds	2,078,157	–	16,685,917	41,273,292	12,579,509	72,616,875
Other assets, net	12,730,053	600,807	390,354	280,006	2,606,421	16,607,641
Total	15,432,572	832,151	17,897,501	65,058,728	42,932,993	142,153,945
Commitment and contingent liabilities						
Commitment and contingent liabilities	54,322,995	2,227,179	15,776,875	2,664,020	12,724,616	87,715,685

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

43.5 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

COLLATERAL

The Group holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended December 31, 2020 was AED 238,642,874 thousand (December 31, 2019 — AED 247,161,187 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

WRITE-OFF

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 180 days past due for retail and SME loans. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

REVERSAL OF IMPAIRMENT

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

DERIVATIVES

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

The following table represents internal credit ratings of derivative financial instruments:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Internal risk grades		
Grades 1 to 4	8,548,556	5,160,691
Grades 5 to 6	2,561,678	1,536,539
Grade 7	–	74,873
Unrated	36,162	17,614
	11,146,396	6,789,717

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

MASTER NETTING ARRANGEMENTS

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

DERIVATIVE RELATED CREDIT RISK

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

OFF-BALANCE SHEET

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks with the exception that the worse staging for off-balance sheet exposures is stage 2. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

44. Interest rate risk framework, measurement and monitoring

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 of interest rate gaps, economic value of equity and earnings at risk and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury division, which uses derivative instruments such as interest rate swaps and cross currency interest rate swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are assets and liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category. Interest rate sensitivity position of floating rate financial instruments is based on either repricing date or maturity date while that of fixed rate financial instruments is based on maturity date.

Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity and mutual funds, commodity and currency derivatives and cash and balances with central banks excluding overnight and certificate of deposits.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2020 is as follows:

	Less than 3 months AED '000	3 months to less than 6 months AED '000	6 months to less than 1 year AED '000	1 year to less than 3 years AED '000	Over 3 years AED '000	Non- interest bearing items AED '000	Total AED '000
Assets							
Cash and balances with central banks, net	17,228,201	–	–	–	–	12,373,406	29,601,607
Deposits and balances due from banks, net	13,987,000	4,604,738	1,675,691	73,269	81	1,194,663	21,535,442
Derivative financial instruments	10,072,987	–	–	916	–	1,072,493	11,146,396
Investment securities	2,883,263	7,323,330	4,464,989	21,166,355	51,392,899	975,148	88,205,984
Loans and advances to customers, net	197,009,273	14,758,869	6,659,016	7,443,910	25,080,186	(11,975,552)	238,975,702
Investment in associates	–	–	–	–	–	255,868	255,868
Investment properties	–	–	–	–	–	1,643,956	1,643,956
Other assets, net	–	–	–	–	–	10,081,413	10,081,413
Property and equipment, net	–	–	–	–	–	2,058,575	2,058,575
Intangible assets, net	–	–	–	–	–	7,390,291	7,390,291
Assets held for sale	–	–	–	–	–	261,067	261,067
Total assets	241,180,724	26,686,937	12,799,696	28,684,450	76,473,166	25,331,328	411,156,301
Liabilities and equity							
Due to banks	4,981,850	565,426	1,265,434	–	–	1,409,361	8,222,071
Derivative financial instruments	10,080,042	50,553	4,676	24,723	38,444	656,610	10,855,048
Deposits from customers	149,432,588	19,692,234	9,849,597	3,094,453	88,503	69,238,082	251,395,457
Euro commercial paper	2,623,117	542,438	1,588,038	–	–	–	4,753,593
Borrowings	17,540,312	7,052,261	3,567,802	12,559,876	24,675,793	–	65,396,044
Other liabilities	–	–	–	–	–	13,927,975	13,927,975
Liabilities related to assets held for sale	–	–	–	–	–	4,725	4,725
Equity	–	–	–	–	–	56,601,388	56,601,388
Total liabilities and equity	184,657,909	27,902,912	16,275,547	15,679,052	24,802,740	141,838,141	411,156,301
On-balance sheet gap	56,522,815	(1,215,975)	(3,475,851)	13,005,398	51,670,426	(116,506,813)	–
Off-balance sheet gap	3,043,917	(3,443,517)	(1,373,035)	(2,692,164)	4,464,799	–	–
Total interest rate sensitivity gap	59,566,732	(4,659,492)	(4,848,886)	10,313,234	56,135,225	(116,506,813)	–
Cumulative interest rate sensitivity gap	59,566,732	54,907,240	50,058,354	60,371,588	116,506,813	–	–

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2019 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non- interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	3,916,366	925,000	–	–	–	20,063,600	24,904,966
Deposits and balances due from banks, net	14,339,262	4,564,997	3,009,306	–	–	1,151,409	23,064,974
Derivative financial instruments	5,909,711	50,510	–	–	–	829,496	6,789,717
Investment securities (*)	10,386,061	3,775,714	5,110,890	23,590,702	29,753,508	825,787	73,442,662
Loans and advances to customers, net (*)	190,566,360	25,120,764	6,827,243	8,666,427	25,289,329	(8,637,043)	247,833,080
Investment in associates	–	–	–	–	–	407,768	407,768
Investment properties	–	–	–	–	–	1,693,707	1,693,707
Other assets, net	–	–	–	–	–	16,750,208	16,750,208
Property and equipment, net	–	–	–	–	–	2,197,571	2,197,571
Intangible assets, net (*)	–	–	–	–	–	7,474,342	7,474,342
Assets held for sale	–	–	–	–	–	535,830	535,830
Total assets	225,117,760	34,436,985	14,947,439	32,257,129	55,042,837	43,292,675	405,094,825
Liabilities and equity							
Due to banks	3,186,219	109,821	36,730	660,911	–	1,739,098	5,732,779
Derivative financial instruments	6,179,120	35,257	–	–	–	735,514	6,949,891
Deposits from customers	139,863,952	32,357,423	25,673,762	3,222,513	231,486	60,744,646	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	–	–	–	2,062,338
Borrowings	15,825,363	371,360	784,949	4,215,790	30,684,592	–	51,882,054
Other liabilities	–	–	–	–	–	20,302,794	20,302,794
Liabilities related to assets held for sale	–	–	–	–	–	413,395	413,395
Equity (*)	–	–	–	–	–	55,657,792	55,657,792
Total liabilities and equity	166,436,725	33,336,593	26,712,976	8,099,214	30,916,078	139,593,239	405,094,825
On-balance sheet gap	58,681,035	1,100,392	(11,765,537)	24,157,915	24,126,759	(96,300,564)	–
Off-balance sheet gap	7,782,963	(332,626)	(3,067,581)	(8,639,002)	4,256,246	–	–
Total interest rate sensitivity gap	66,463,998	767,766	(14,833,118)	15,518,913	28,383,005	(96,300,564)	–
Cumulative interest rate sensitivity gap	66,463,998	67,231,764	52,398,646	67,917,559	96,300,564	–	–

(*) restated – refer note 53

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

45. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

LIQUIDITY RISK MANAGEMENT PROCESS

The Group has Board of Directors (BOD) approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Group's liquidity management process, as carried out within the Group and monitored by the Group's Treasury division includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- Conducting regularly liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with triggers and suggested actions;
- Ensuring regular compliance with the liquidity ratios such as Net Stable Funding Ratio (NSFR) and Liquidity Coverage ratio (LCR) stipulated by CBUAE and internally approved management triggers for liquidity risk;

- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis; and
- Monitoring of depositor concentration to ensure that the Group's deposit funding is well diversified.

Monitoring composition of funding sources at a granular level includes setting triggers for avoiding concentration of funding by product. The concentration of funding sources is monitored as percentage of the total liability and equity position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities and equity
- Wholesale funds to total liabilities and equity
- Money market deposits to total liabilities and equity
- Core deposits to customer deposits
- Offshore funds to total liabilities and equity

The Group has established several early warning indicators for liquidity risk in line with the CBUAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

TOOLS FOR LIQUIDITY MANAGEMENT

The Group through its Treasury division ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the global medium term note program.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. The Group's Treasury division manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from CBUAE to manage its liquidity risk during critical times:

- Drawdown against its cash reserves at base rate plus a spread of 400 basis points; and
- Repo facility against CDs HQLA under CBUAE Marginal Lending Facility (MLF) at base rate plus a spread of 100 basis points;

Base rate is currently set at US Federal Reserve's interest payable on excess reserves.

The Bank also has access to CBUAE's Targeted Economic Support Scheme to contain the repercussion of the Covid-19 pandemic. This collateralised zero cost funding scheme (expected to expire on June 30, 2021) aims to provide temporary relief and support the recovery of clients directly affected by the pandemic.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in 'less than 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The maturity profile of the assets and liabilities as at December 31, 2020 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	29,601,607	–	–	–	–	29,601,607
Deposits and balances due from banks, net	11,849,873	5,986,785	2,174,216	1,524,487	81	21,535,442
Derivative financial instruments	8,684,340	78,826	65,725	477,578	1,839,927	11,146,396
Investment securities	2,565,223	7,470,294	4,464,989	21,330,084	52,375,394	88,205,984
Loans and advances to customers, net	45,536,144	11,093,093	8,440,699	40,106,869	133,798,897	238,975,702
Investment in associates	–	–	–	–	255,868	255,868
Investment properties	–	–	–	1,643,956	–	1,643,956
Other assets, net	4,765,182	1,223,033	4,064,116	2,781	26,301	10,081,413
Property and equipment, net	–	–	–	–	2,058,575	2,058,575
Intangible assets, net	–	–	–	124,000	7,266,291	7,390,291
Assets held for sale	261,067	–	–	–	–	261,067
Total assets	103,263,436	25,852,031	19,209,745	65,209,755	197,621,334	411,156,301
Liabilities and equity						
Due to banks	6,368,673	565,426	1,265,434	22,538	–	8,222,071
Derivative financial instruments	8,039,739	134,809	49,838	635,122	1,995,540	10,855,048
Deposits from customers	214,726,491	20,459,023	10,728,636	4,204,912	1,276,395	251,395,457
Euro commercial paper	2,623,117	542,438	1,588,038	–	–	4,753,593
Borrowings	2,076,173	7,106,820	3,768,437	22,869,069	29,575,545	65,396,044
Other liabilities	8,143,777	770,102	3,865,773	217,461	930,862	13,927,975
Liabilities related to assets held for sale	4,725	–	–	–	–	4,725
Equity	–	–	–	–	56,601,388	56,601,388
Total liabilities and equity	241,982,695	29,578,618	21,266,156	27,949,102	90,379,730	411,156,301
Balance sheet liquidity gap	(138,719,259)	(3,726,587)	(2,056,411)	37,260,653	107,241,604	–
Off balance sheet						
Financial guarantees and irrevocable commitments	2,443,780	3,043,605	4,551,577	8,040,363	4,778,707	22,858,032
Derivatives held for hedging purpose (notional)	9,032,488	6,323,578	4,018,536	24,453,297	42,435,353	86,263,252

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The maturity profile of the assets and liabilities as at December 31, 2019 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	23,979,966	925,000	–	–	–	24,904,966
Deposits and balances due from banks, net	13,423,798	4,421,777	3,703,615	1,515,784	–	23,064,974
Derivative financial instruments	5,639,754	26,325	40,874	167,824	914,940	6,789,717
Investment securities (*)	5,788,373	4,270,039	8,786,912	23,997,210	30,600,128	73,442,662
Loans and advances to customers, net (*)	44,052,919	5,186,426	7,112,894	45,611,493	145,869,348	247,833,080
Investment in associates	–	–	–	–	407,768	407,768
Investment properties	–	–	–	1,693,707	–	1,693,707
Other assets, net	6,469,945	1,214,600	8,832,632	91,168	141,863	16,750,208
Property and equipment, net	–	–	–	–	2,197,571	2,197,571
Intangible assets, net (*)	–	–	–	–	7,474,342	7,474,342
Assets held for sale	535,830	–	–	–	–	535,830
Total assets	99,890,585	16,044,167	28,476,927	73,077,186	187,605,960	405,094,825
Liabilities and equity						
Due to banks	4,925,317	109,821	36,730	660,911	–	5,732,779
Derivative financial instruments	5,480,266	13,354	84,380	305,823	1,066,068	6,949,891
Deposits from customers	197,772,261	32,773,977	26,359,616	4,074,804	1,113,124	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	–	–	2,062,338
Borrowings	4,180,133	416,678	3,160,661	9,137,546	34,987,036	51,882,054
Other liabilities	8,556,298	1,188,275	9,018,310	315,229	1,224,682	20,302,794
Liabilities related to assets held for sale	413,395	–	–	–	–	413,395
Equity (*)	–	–	–	–	55,657,792	55,657,792
Total liabilities and equity	222,709,741	34,964,837	38,877,232	14,494,313	94,048,702	405,094,825
Balance sheet liquidity gap	(122,819,156)	(18,920,670)	(10,400,305)	58,582,873	93,557,258	–
Off balance sheet						
Financial guarantees and irrevocable commitments	1,908,054	983,050	2,052,972	12,028,727	6,054,677	23,027,480
Derivatives held for hedging purpose (notional)	12,660,430	3,629,350	5,201,682	22,363,124	53,924,697	97,779,283

(*) restated – refer note 53

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
As at December 31, 2020							
Due to banks	8,222,071	8,274,312	6,382,706	567,061	1,302,007	22,538	–
Derivative financial instruments	10,855,048	10,880,850	8,185,336	352,784	319,806	1,146,617	876,307
Deposits from customers	251,395,457	252,369,431	215,481,837	20,511,295	10,814,168	4,275,033	1,287,098
Euro commercial paper	4,753,593	4,755,902	2,622,271	541,740	1,591,891	–	–
Borrowings	65,396,044	124,858,192	2,358,041	7,292,992	4,150,906	23,696,649	87,359,604
Total financial liabilities	340,622,213	401,138,687	235,030,191	29,265,872	18,178,778	29,140,837	89,523,009
As at December 31, 2019							
Due to banks	5,732,779	5,821,738	4,954,314	112,545	37,567	717,312	–
Derivative financial instruments	6,949,891	6,582,921	5,457,296	132,010	58,207	497,449	437,959
Deposits from customers	262,093,782	264,472,376	199,405,090	33,060,680	26,846,726	4,028,523	1,131,357
Euro commercial paper	2,062,338	2,077,702	1,394,874	464,209	218,619	–	–
Borrowings	51,882,054	107,122,345	4,536,900	600,768	3,601,391	10,650,433	87,732,853
Total financial liabilities	328,720,844	386,077,082	215,748,474	34,370,212	30,762,510	15,893,717	89,302,169

46. Market risk framework, measurement and management

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

MARKET RISK ARISING FROM TRADING BOOK

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

MARKET RISK ARISING FROM BANKING BOOK

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in instruments designated at FVTOCI, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

RISK IDENTIFICATION AND CLASSIFICATION

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

MANAGEMENT OF MARKET RISK

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

Market risk management is overseen by MRCC and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

RISK MEASUREMENT

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

STATISTICAL RISK MEASURES

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Group's VaR for the year ended December 31, 2020 is as below:

	2020 AED'000	2019 AED'000
Daily value at risk (VaR at 99% — 1 day)		
Overall risk	(21,378)	(5,136)
Average VaR	(14,842)	(4,843)

NON-STATISTICAL RISK MEASURES

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

SENSITIVITY ANALYSIS

To overcome the VaR limitations mentioned under statistical measure above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO committee for their review.

INTEREST RATE RISK — TRADING BOOK

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2020		2019	
	+25bps AED'000	-25bps AED'000	+25bps AED'000	-25bps AED'000
AED	(1,390)	1,518	(29,850)	31,783
USD	6,345	(6,725)	3,059	(4,953)

INTEREST RATE RISK — NON-TRADING BOOK

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

	2020		2019	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	74,451	(56,398)	70,293	(62,094)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

CURRENCY RISK

Foreign exchange 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 delta notional positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. As at December 31, 2020, the Group's net delta notional positions in major currencies are as below:

Currency	Net currency position (short)/long	
	2020 AED'000	2019 AED'000
USD	27,133,921	31,792,775
EUR	154,531	64,011
GBP	(5,071)	1,413
JPY	(11,331)	19,621
INR	197,136	211,128
SAR	(2,614,488)	(4,448,838)
EGP	630,937	492,841
AUD	338	(52,830)

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates — with other market risk factors held constant (including the USD-AED currency pair which is pegged) — which would have an impact on the Group's consolidated income statement:

Price shock in percentage	2020		2019	
	+5% AED'000	-5% AED'000	+5% AED'000	-5% AED'000
USD-AUD	(107)	107	(2,578)	5,097
EUR-USD	(205)	6,760	(6,770)	9,120
GBP-USD	(248)	248	2,197	(2,147)
USD-JPY	1,491	(1,206)	103	(122)
USD-INR	(11,528)	14,126	(11,769)	13,143
USD-EGP	(29,993)	33,154	(23,384)	25,846
USD-SAR	76,408	(374,930)	105,725	(508,562)

47. Operational risk management

OVERVIEW

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses, legal suits, regulatory criticism and reputational damage.

The objective of the Group's operational risk management is to manage and control operational risk in a proactive and cost-effective manner within targeted levels of operational risk consistent with a defined risk appetite. ADCB primarily aims at early identification and assessment of operational risks allowing timely mitigation, as well as meaningful management reporting and continuous improvement of the control environment.

During 2020, the Group continued to support alignment of the enhanced Operational Risk Management Framework ('ORMF') across the Group, focusing on the consistency in application of the core tools such as risk and control self-assessment (RCSAs), key risk indicators (KRIs) and control testing and timeliness of material incident reporting. Enhanced operational risk management tools were developed to support operational risk treatment approaches and assessment of operational risk in new/material change initiatives.

To mitigate increased operational risk resulting from Covid-19 outbreak, a cross-functional team led by Group Operational Risk has been established and reviewed over 190 Covid-19 induced changes in business processes to ensure they remained within the Bank's risk appetite.

The enhanced ORMF shall enable an end-to-end view of non-financial risks, facilitating focus on the risks that are critical to achieving the Group's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organisation understand the level of risk it is willing to accept.

THREE LINES OF DEFENCE

To create a robust control environment to manage risks, the Group uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Group's approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.

The third line of defence is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

RISK CULTURE AND AWARENESS

A strong risk culture and good communication among the three lines of defence are important characteristics of good operational risk governance. ADCB's operational risk culture is driven by its core values.

A 'No surprise' and 'No blame' culture cascades from senior management creating awareness throughout ADCB of the need to manage operational risk.

GOVERNANCE AND STRUCTURE

The ORMF defines the overall approach through which the Board and senior management establish and make decisions about the Bank's operational risk strategy and the supporting governance structure.

The ORMF has been codified in policies and supplemented with detailed standard operating procedures and guidelines. Policies describe the Group's approach in identifying, assessing, monitoring and controlling operational risk and give guidance on mitigating action to be taken when weaknesses are identified.

The Group has a dedicated Group Operational Risk Management function. It is responsible for developing strategies to identify, assess, monitor and control operational risk and operational risk management tools, codifying risk related policies and procedures, designing and implementing the Bank's risk assessment methodology and risk reporting system, challenging the activities and behaviours giving rise to material operational risks. It supports the Group CRO and the Operational Risk Working Group which meets bi-monthly to discuss key risk issues and review implementation of the ORMF. The Group Operational Risk Management function is also responsible for preparation of operational risk reporting at Group level including reports for consideration by the Operational Risk Working Group and BREC. A formal governance structure provides oversight of the function's management.

The operating model of interaction between the first and second line of defence is facilitated through a group of full time and/or part time business risk and control champions.

KEY RISK MANAGEMENT PROCESS

All managers throughout the Group are responsible for managing their areas of responsibility within the Board approved risk appetite. This includes maintaining an acceptable level of internal controls commensurate with the scale and nature of operations and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing tools for managing operational risk and associated reporting.

Operational RCSAs provide a structured approach for businesses to develop consistent risk profiles by identifying and assessing risks and relevant controls.

Control testing is a periodic assessment of operating effectiveness of key controls, performed by the business and reviewed and challenged by the second Line of defence. Control testing results inform the residual risk assessment of the risks included in the RCSA and resulting corrective action drive continuous improvement in the Bank's control environment.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Ongoing tracking of KRIs by business/support functions allows the Bank to respond promptly to any changes in risk and control environment of the organization, especially where KRI values are approaching the appetite levels as defined by management.

Early reporting of operational risk events is fundamental to prompt management action in limiting the impact of an event that has occurred and preventing similar events in future. All employees are responsible for reporting and recording operational risk events on detection. These also include events with no financial impact. Material risk events are reported and escalated to the appropriate governance structures on a monthly and ad-hoc basis in line with their materiality.

Operational risk actions are addressing issues identified through any operational risk process and reflect the Department Head's or Group Head's response to the level of underlying residual risk taking into account objectives, risk appetite and resources available. Business and functional management monitor the progress of documented action plans to address any shortcomings.

BUSINESS CONTINUITY MANAGEMENT

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to ADCB. ADCB recognizes the importance business continuity plays in business and, of its obligations to customers and stakeholders.

ADCB's business continuity framework and programme for the UAE is certified ISO22301:2012 and has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event. The same approach is used across the ADCB Group.

Business continuity framework requires that the business continuity plan can only be set post business impact analysis which is formally reviewed by business continuity management departments for quality and business continuity framework compliance. The business impact analysis and business continuity plan are formally 'signed-off' by the business head; the content is owned and maintained locally. Staff awareness is maintained by the Group at a centralised level. Local awareness is maintained by business continuity champions in the business unit.

ADCB undertakes a rolling two year exercise programme ensuring the validity of its business continuity strategies. Issues arising from these exercises are reported to management and support continuous improvement of business continuity programme.

ADCB has a group wide crisis management framework to ensure that response to disruptive events is coordinated and managed. The crisis management framework builds on business as usual procedures with defined escalation and management response plans.

The Bank executed its pandemic response plan from January 2020 in response to the coronavirus outbreak and the Bank continues to adopt an abundance of caution approach ensuring the safety of its staff and customers. The Bank has enabled a distributed work approach across the ADCB Group and has maintained a resilient service throughout.

48. Trust activities

As at December 31, 2020, the net asset value of the funds under the management of the Group amounted to AED 3,066,896 thousand (December 31, 2019 – AED 2,981,303 thousand).

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

49. Subsidiaries

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Effective ownership interest	Incorporation		Principal activities
		Year	Country	
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC ⁽²⁾	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC ⁽²⁾	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC ⁽¹⁾	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited	100%	2008	Cayman Islands	Treasury related activities.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Bank (UK Representative Office) Limited ⁽²⁾⁽³⁾	100%	2008	United Kingdom	UK representative office and process service agent.
ITMAM Services FZ LLC	100%	2010	UAE	Transaction processing and back office support for the Group.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Omicron Capital ⁽²⁾	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited ⁽²⁾	100%	2016	Cayman Islands	Treasury financing activities.
Common Services SARL ⁽²⁾	100%	2018	Luxembourg	Acquisition, holding, management and disposal of participations and interests.
ADCB Asset Management Limited	100%	2018	UAE	Wealth management and private banking.
Al Wifaq Finance Company PrJSC	90.08%	2006	UAE	Shari'ah compliant Islamic finance products and services.
Al Wifaq Properties LLC ⁽²⁾	90.28%	2015	UAE	Property management services.
Union Brokerage LLC ⁽²⁾	100%	2002	UAE	Agent in trading of financial instruments and stocks.
Injaz Marketing Management LLC ⁽²⁾	99%	2007	UAE	Marketing management services.
Abu Dhabi Commercial Bank – Egypt (formerly known as Union National Bank – Egypt)	99.78%	1981	Egypt	Commercial banking services.
Al Hilal Bank PJSC	100%	2007	UAE	Islamic banking activities.
Al Hilal Islamic Bank JSC	100%	2010	Kazakhstan	Islamic banking activities.
Al Hilal Leasing LLP	100%	2011	Kazakhstan	Shari'ah compliant leasing operations.
Al Hilal Auto LLC ⁽²⁾⁽³⁾	100%	2009	UAE	Shari'ah compliant trading in new and used cars.
AHB Sukuk Company Limited	Controlling interest	2011	Cayman Islands	Treasury financing activities.

(1) dormant (2) under liquidation (3) discontinued operations

During the year, Al Hilal Bank PJSC sold the entire shareholding in Al Hilal Takaful PSC.

The Group does not have any subsidiary with material non-controlling interests.

50. Capital adequacy ratio and capital management

CAPITAL MANAGEMENT PROCESS

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the CBUAE;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the CBUAE.

CBUAE issued an update on Capital Adequacy Standards in April 2020 vide notice number 1733/2020 replacing the earlier issued standards. The updated standards include new requirements on internal and external review, additional guidelines on credit, market and operational risk and details for Pillar 2 requirements. The regulations ensure compliance with Basel III Capital Standards set out by the Basel Committee on Banking Supervision (BCBS).

For credit and market risk, CBUAE has issued guidelines for implementation of standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the CBUAE has given banks the option to use the Basic Indicators approach or the standardised approach and the Group has chosen to use the standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel III includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

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

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

CAPITAL SUPPLY

As per Basel III requirements, total regulatory capital comprises of the following:

- Tier 1 capital, composed of:
 - Common Equity Tier 1 (CET1) and
 - Additional Tier 1 (AT1).
- Tier 2 capital.

CET1 capital includes paid-up share capital, share premium, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income, other disclosed reserves and minority interest.

The following regulatory adjustments are applied in the calculation of CET 1:

- goodwill and other intangible assets;
- cash flow hedge reserves;
- defined benefit pension fund assets and liabilities;
- treasury shares

AT1 capital comprises of instruments eligible for inclusion in AT1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and CBUAE rules, perpetual equity instruments issued by the Bank or its subsidiaries and not included in Tier 1 and their premium and instruments eligible for inclusion in Tier 2 capital such as hybrid (debt/equity) capital instruments and subordinated term loan.

CAPITAL ALLOCATION

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

CAPITAL ADEQUACY RATIO

The ratio calculated in accordance with Basel III guidelines is as follows:

	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 22)	6,957,379	6,957,379
Share premium	17,878,882	17,878,882
Other reserves (Note 23)	9,051,224	8,649,013
Retained earnings	15,783,861	15,403,049
Non-controlling interests	4,019	19,405
Regulatory deductions and adjustments		
Intangible assets, net (Note 16)	(7,390,291)	(7,474,342)
Cash flow hedge reserve (Note 23)	(33,464)	10,227
Employee's incentive plan shares, net (Note 23)	(26,869)	(30,105)
Revaluation reserve of investments designated at FVTOCI (Note 23)	393,536	277,328
Total CET1 capital	42,618,277	41,690,836
Additional tier 1 (AT1) capital		
Capital notes (Note 26)	6,000,000	6,000,000
Total AT1 capital	6,000,000	6,000,000
Total tier 1 capital	48,618,277	47,690,836
Tier 2 capital		
Eligible general provision	3,429,788	3,627,019
Subordinated notes (Note 20)	719,614	1,226,060
Total tier 2 capital	4,149,402	4,853,079
Total regulatory capital	52,767,679	52,543,915
Risk-weighted assets		
Credit risk	274,383,003	290,161,492
Market risk	8,822,001	8,170,213
Operational risk	23,219,072	24,027,523
Total risk-weighted assets	306,424,076	322,359,228
CET1 ratio	13.91%	12.93%
AT1 ratio	1.96%	1.86%
Tier 1 ratio	15.87%	14.79%
Tier 2 ratio	1.35%	1.51%
Capital adequacy ratio	17.22%	16.30%

(*) restated to reflect the effect of IFRS 3 – Business combinations adjustments (Note 53)

The above capital adequacy ratios have been calculated in line with Basel guidelines and in accordance with IAS 10 'Events after the Reporting Period', which does not allow proposed dividend to be recognized as a liability.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

On January 17, 2018, CBUAE issued guidelines requiring banks to deduct proposed dividends from retained earnings while calculating the capital adequacy ratio. In line with this regulation, the Bank's capital adequacy ratios after deducting the proposed dividends will be as below:

	2020	2019
CET1 ratio	13.30%	12.11%
Tier 1 ratio	15.25%	13.97%
Capital adequacy ratio	16.61%	15.48%

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In November 2020, CBUAE issued an update to the Capital Adequacy Standards (notice number 1733/2020) published earlier in April 2020 vide notice number CBUAE/BSN/2020/4980. Under the revised notice, banks are expected to implement requirements of the capital standards in a phased manner which will allow the banks to absorb the new regulations without over burdening them during the Covid-19 pandemic.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% – 2.5% of risk weighted assets and will be communicated by CBUAE with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, CBUAE has introduced domestic systemically important banks (D-SIB) buffer of 0.5% for ADCB.

As at December 31, 2020, the Bank is required to meet the following minimum capital ratios:

Capital ratios	
CET1 including buffers	
– CET1	7.00%
– CCB	2.50%
– D-SIB buffer	0.50%
CET1 including buffers	10.00%
Tier 1	11.50%
Minimum capital requirement	13.50%

CBUAE has issued a notice CBUAE\BSD\N\2020\1479 dated March 18, 2020, providing guidelines for Targeted Economic Support Scheme (TESS). The notice aims to contain the repercussions of Covid-19 pandemic in the UAE. TESS guidelines are immediately effective and will last for one year starting from March 15, 2020. Banks are allowed the following relief under the TESS:

- (a) Banks can tap into their CCB up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.
- (b) CBUAE allows banks to apply prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of expected volatility due to the Covid-19 crisis.

COMMON EQUITY TIER 1 (CET1) CAPITAL RESOURCES

- (a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

- (b) Statutory and Legal reserves:

- (i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 201,923 thousand has been transferred to statutory reserve during the year (December 31, 2019 – AED 478,968 thousand). The statutory reserve is not available for distribution.
- (ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 201,923 thousand has been transferred to legal reserve during the year (December 31, 2019 – AED 478,968 thousand). The legal reserve is not available for distribution.

- (c) General and Contingency reserves:

- (i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

- (ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.
- (iii) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.
- (d) Regulatory deductions and adjustments:
 - (i) Goodwill and other intangible assets.
 - (ii) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. However, it is limited to 45% if the balance is positive.
 - (iii) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.
 - (iv) Revaluation reserve of investments designated at FVTOCI: This includes the cumulative net change in the fair value of investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive.

ADDITIONAL TIER 1 (AT1) CAPITAL RESOURCES

- (a) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to the ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.
- Pursuant to merger, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand. The terms and conditions applicable to these notes are similar to the Notes issued by ADCB.

TIER 2 CAPITAL RESOURCES

- (a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.
- (b) Eligible subordinated notes (Note 20).

51. Social contributions

The Group made the following social contributions during the year:

	2020 AED '000	2019 AED '000
Donations	15,288	2,132
Sponsorships	4,045	13,390
Total social contributions	19,333	15,522

52. Legal proceedings

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

53. Business combinations

Merger with Union National Bank PJSC — On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in a stock transaction. UNB was a banking institution headquartered in Abu Dhabi with operations in UAE, Egypt, Kuwait, Qatar and China. Under the terms of the agreement, shareholders of UNB received 0.5966 ordinary shares of ADCB for each ordinary share of UNB. ADCB issued 1,641,501,087 ordinary shares that had a total fair value of AED 16,218,031 thousand based on the closing market price of AED 9.88 per share on April 30, 2019. UNB shares were delisted from Abu Dhabi Securities Exchange subsequent to the merger.

Acquisition of Al Hilal Bank PJSC — On May 1, 2019, ADCB and UNB as a merged entity completed its 100% acquisition of Al Hilal Bank PJSC (or "AHB") at a consideration of AED 1,000,000 thousand. AHB is a banking institution headquartered in Abu Dhabi with operations in UAE and Kazakhstan.

The merger and acquisition constituted business combination under common control. The Group sought and received fairness opinions from two investment banks of international repute, who opined that the aforementioned exchange ratio for merger with UNB and consideration for acquisition of AHB are fair, from a financial point of view, to the shareholders of the banks.

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The merger and acquisition has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and may require adjustments, which can be revisited for up to a year following the merger and acquisition.

PURCHASE CONSIDERATION AND NET IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The purchase consideration (also referred to as "purchase price") of the merger and the acquisition have been allocated to the assets acquired and liabilities assumed using their fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of UNB and AHB based on their respective fair values as of May 1, 2019 and the resulting goodwill is presented below.

(in AED 000, except per share amount)	UNB	AHB
Purchase consideration		
Union National Bank PJSC ordinary shares ('000) (i)	2,751,427	
Exchange ratio (ii)	0.5966	
ADCB ordinary shares issued to UNB shareholders ('000) (i)*(ii)	1,641,501	
April 30, 2019 closing price of ADCB ordinary share	AED 9.88	
	16,218,031	
117,647,058 ADCB ordinary shares issued to AHB shareholder at a conversion price of AED 8.50 per share		1,000,000
Total purchase consideration (a)	16,218,031	1,000,000
Assets acquired and liabilities assumed		
Assets		
Cash and balances with central banks	9,260,404	3,359,142
Deposits and balances due from banks	2,253,640	3,174,981
Derivative financial instruments	213,240	5,198
Investment securities	17,147,692	3,303,391
Loans and advances to customers	63,994,388	18,434,461
Investment in associates	103,969	93,886
Investment properties	1,119,449	61,350
Other assets	1,709,566	503,518
Property and equipment	538,777	549,590
Intangible assets	562,000	223,000
Assets held for sale	–	257,899
Total assets (b)	96,903,125	29,966,416
Liabilities		
Due to banks	3,827,597	244,979
Derivative financial instruments	153,121	34,980
Deposits from customers	72,245,927	23,055,240
Borrowings	5,146,658	3,005,769
Other liabilities	3,181,994	1,321,601
Liabilities related to assets held for sale	–	316,930
	84,555,297	27,979,499
Tier I capital notes	2,000,000	1,836,500
Non-controlling interests	14,931	–
Total liabilities (c)	86,570,228	29,815,999
Total identifiable net assets at fair value (d) = (b) – (c)	10,332,897	150,417
Goodwill arising on business combinations (a) – (d)	5,885,134	849,583

ABU DHABI COMMERCIAL BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

The net assets recognised in the consolidated financial statements for the year ended December 31, 2019 were based on a provisional assessment of their fair value while the Group continued its valuation exercise for loans and advances to customers, specifically pertaining to retail loans acquired from UNB and AHB. The valuation exercise was not completed by the date when these financial statements were approved for issue by the Board of Directors.

During the first quarter of 2020, the valuation exercise was completed and the acquisition date fair value of loans and advances to customers, investment securities and non-controlling interests were changed from their provisional amounts. As a result, there was an increase in goodwill by AED 2,141,845 thousand over the provisional amount. The goodwill is attributable mainly to the synergies expected to be achieved from integration of UNB and AHB into the Group.

RESTATEMENT OF THE STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

The 2019 comparative information has been restated to reflect the adjustments to the provisional amounts, as stated above.

	As at December 31 2019 (as previously reported) AED'000	Restatement due to IFRS 3 adjustments AED'000	As at December 31 2019 (restated) AED'000
Investment securities	73,440,113	2,549	73,442,662
Loans and advances to customers, net	250,017,326	(2,184,246)	247,833,080
Intangible assets, net	5,332,497	2,141,845	7,474,342
Non-controlling interests	59,257	(39,852)	19,405

ACCOUNTING POLICY CHOICE FOR NON-CONTROLLING INTERESTS

The Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

BUSINESS COMBINATION RELATED COSTS

The Group incurred integration and transaction costs of AED 153,126 thousand (2019: AED 294,321 thousand) during the year. These costs have been included in 'operating expenses' in the consolidated income statement.

PURCHASE CONSIDERATION – CASH INFLOW

	AED'000
Cash and cash equivalent acquired	11,037,392
Purchase consideration paid in cash	–
Net cash inflow – investing activities	11,037,392

IMPACT OF BUSINESS COMBINATIONS ON GROUP'S CONSOLIDATED INCOME STATEMENT

If the aforesaid business combinations had occurred on January 1, 2019, the Group's total operating income and profit before tax from continuing operations would be AED 13,211,961 thousand and AED 5,345,037 thousand respectively for the year ended December 31, 2019.

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