Discover how we triumphed over challenges and set new records.
Find out why our customers are so loyal, how our digital transformation is changing the way they bank, and what that means for the world tomorrow.
Learn about what makes us different and the many ways we are helping fuel the ambition of the UAE for the best possible future.

WE ARE FUTURE READY

بنك أبوظبي التجاري
ADCB

FUTURE READY FUTURE READY FUTURE READY FUTURE READY

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FUTURE READY FUTURE READY FUTURE READY FUTURE READY

Sheikh Zayed was preparing for the future more than three decades before the UAE established its own space agency and sent a man into space. His meeting with three Apollo 17 astronauts — Eugene Cernan, Ronald Evans and Harrison Schmitt — in February 1976 was an indication of the far-reaching plans the Founding President already had for the UAE.



UAE Founding President Sheikh Zayed with US astronauts Eugene Cernan (standing), Harrison Schmitt and NASA scientist Dr. Farouk Al Baz

"The merger of Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank is in line with the UAE's economic vision, to form powerful banking groups with human potentials and financial capabilities that would enhance the national economic competitiveness and its future aspirations."

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

@mohamedbinzayed



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

The future belongs to those who prepare for it

In 2019, we successfully completed a landmark merger with Union National Bank (UNB) and acquired Al Hilal Bank (AHB). We set new records for the pace of integration, accelerated digital transformation and established new partnerships. We enhanced customer experience and delivered strong returns for our stakeholders. As a result, the enlarged ADCB Group has greater scale and resilience, ensuring we are ready for the future and the opportunities it brings. Today we are prepared for what is next, so tomorrow we can make ambition possible.

بنك أبوظبي التجاري
ADCB

بنك الاتحاد الوطني
UNION NATIONAL BANK
A trademark owned by Abu Dhabi Commercial Bank PJSC
علامة تجارية مملوكة لبنك أبوظبي التجاري ش.م.ع

مصرف الهلال
al hilal bank



FUTURE READY





BUSINESS AS USUAL



Delivering Customer Day One without disruption

In October 2019, just five months after the merger became legally effective, we combined the ADCB and UNB branch and ATM networks and activated branch interoperability. This meant that any customer, whether ADCB or former UNB, could access the combined network of 72 branches and over 450 ATMs across the UAE. We also rolled out the ADCB brand across all customer channels, ensuring a unified and enhanced banking experience for our customers.

This milestone was achieved seamlessly and ahead of schedule through meticulous planning and our passion for excellence.

But no matter how much activity there was behind the scenes, we made sure it was business as usual for more than one million customers.

450+ ATMS

72 BRANCHES

1 MILLION+ CUSTOMERS

Today we are a simpler, faster and more secure bank, thanks to our investment in cutting-edge technology

By launching new, innovative products and services we have transformed the way customers interact with us, enriching their experience and empowering their ambitions.

This year, as part of many digital enhancements across the Group, we launched Hayyak and Ahlan, our account-opening apps, introduced a Virtual Accounts service for corporate customers, and facilitated a multi-million-dollar blockchain transaction. Meanwhile, our partnerships with leading fintechs ensured we continued to stay ahead of the game.



DIGITAL TRANSFORMATION 95%+ OF RETAIL FINANCIAL TRANSACTIONS COMPLETED DIGITALLY



29 DIGITAL CUSTOMER RELEASES

8 MINUTES TO OPEN AN ACCOUNT IN HAYYAK



EMIRATISATION

1,479 EMIRATI EMPLOYEES IN ADCB GROUP

Our focus on the UAE and its people will help promote a stronger and more financially diverse economy

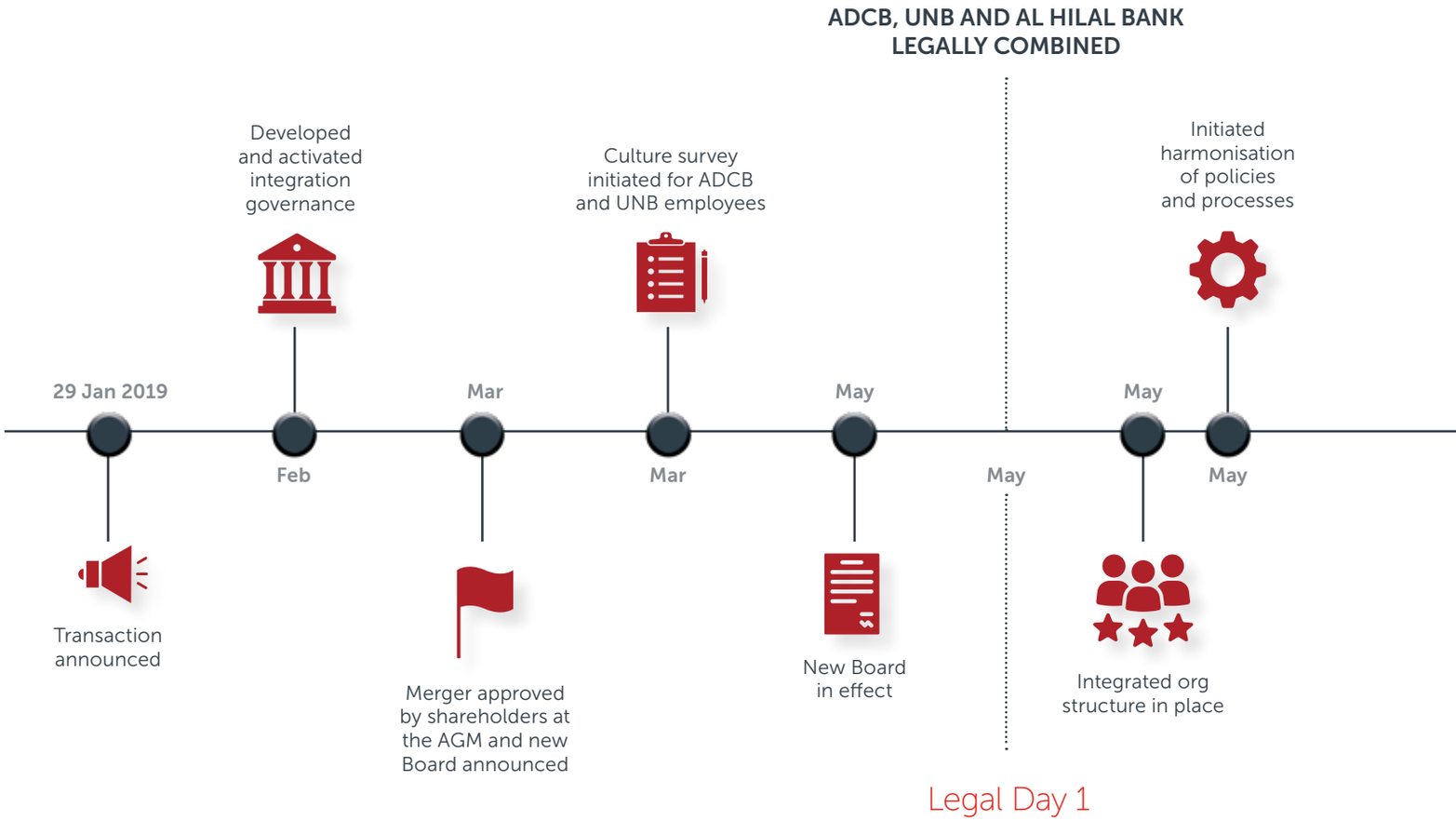
To create a talent pipeline for the future, we actively support young Emiratis through education and experiential programmes to help prepare them for the world of tomorrow.

Emiratis are already a driving force at every level of the Bank. As at 31 December 2019, the Group employed 1,479 UAE Nationals, whilst Al Hilal Bank's Emiratisation rate stood at 48%, the highest in the banking sector.

The Bank has consistently exceeded the Emiratisation targets set by the regulators.



Our integration milestones

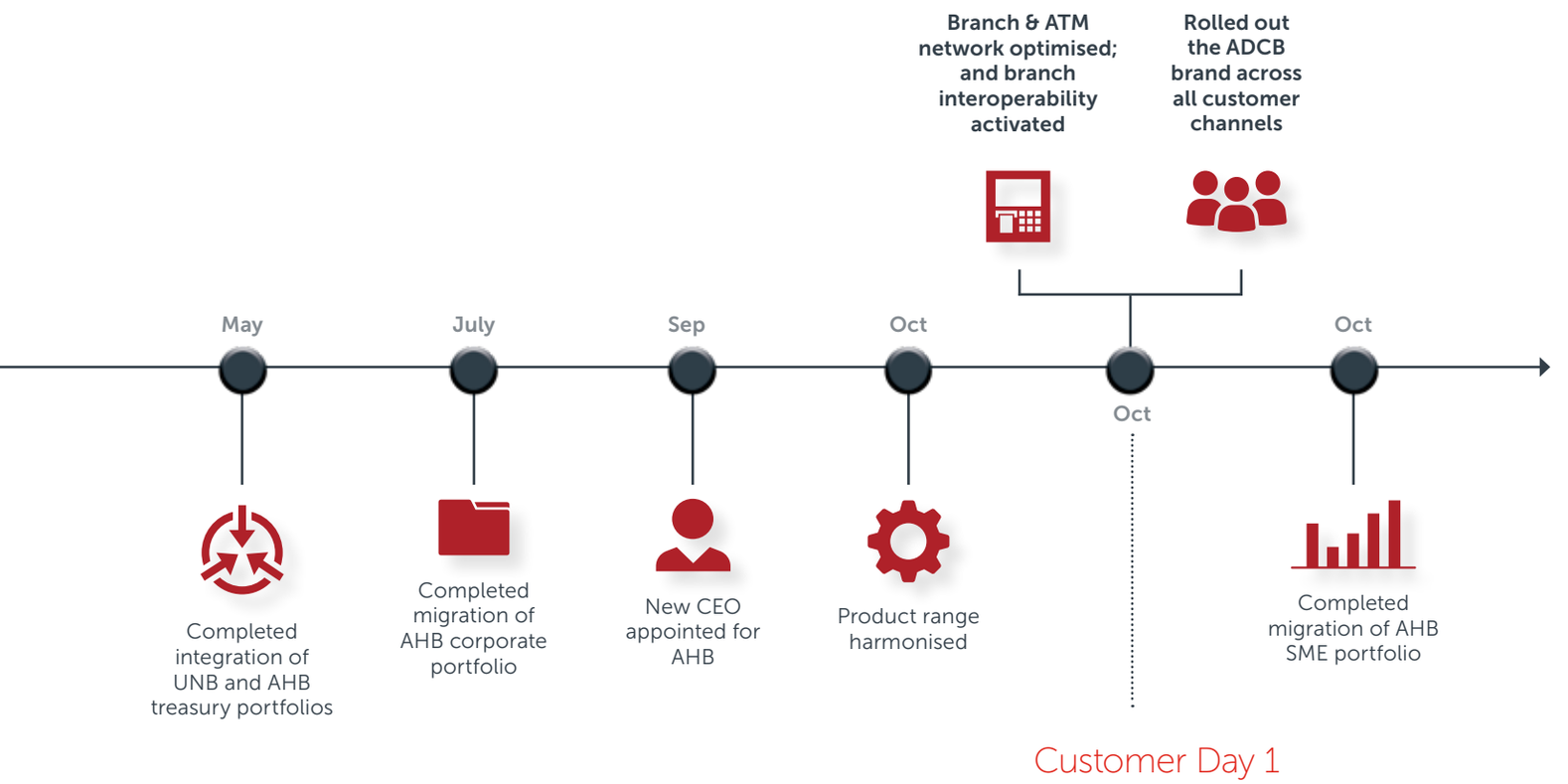


OUR INTEGRATION JOURNEY IN NUMBERS

AED 840 mn
COST SYNERGY ANNUAL TARGET TO BE ACHIEVED BY 2021, UP FROM A PREVIOUS TARGET OF AED 615 MILLION

AED 350 mn
COST SYNERGIES REALISED IN 2019

AED 980 mn
EXPECTED ONE-OFF INTEGRATION COST



KEY NEXT STEPS FOR ADCB-UNB INTEGRATION

- Continue IT infrastructure and applications integration
- Optimise subsidiaries and overseas branch network
- Continue implementation of cultural integration initiatives

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.



BUSINESS FUNCTIONS

Consumer Banking Group

We support our retail and high-net-worth customers with a range of specialist products and services in conventional and Shari'ah-compliant banking.

Read more about this on page 68

Wholesale Banking Group

Our portfolio of services includes business banking, cash management, trade finance, corporate finance, investment banking, Islamic financing, infrastructure and asset finance for clients that range from government-related entities (GREs) to financial institutions, large corporates, mid-sized corporates and small-to-medium-sized enterprises (SMEs).

Read more about this on page 72

Treasury & Investments Group

We provide central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. We undertake the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management.

Read more about this on page 81

Property Management

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

Read more about this on page 82

SUPPORT FUNCTIONS

Group Business Services

Our support and enablement service teams power the technology, operational processes, infrastructure and expertise that provides the secure and efficient environment on which our businesses depend.

Read more about this on page 84

Human Resources

We engage our staff by facilitating a high-performing culture through our values and passion for customer service excellence. We also provide a range of training opportunities to develop the skills required to support our growing business.

Read more about this on page 90

SUBSIDIARIES

To read more about our subsidiaries, please turn to page 44.

For a full list of all our subsidiaries, please turn to page 254.

By the numbers

AED 405 bn
TOTAL ASSETS

AED 5.244 bn
PRO FORMA NET PROFIT

16.89%
CAPITAL ADEQUACY RATIO

1mn+
CUSTOMERS

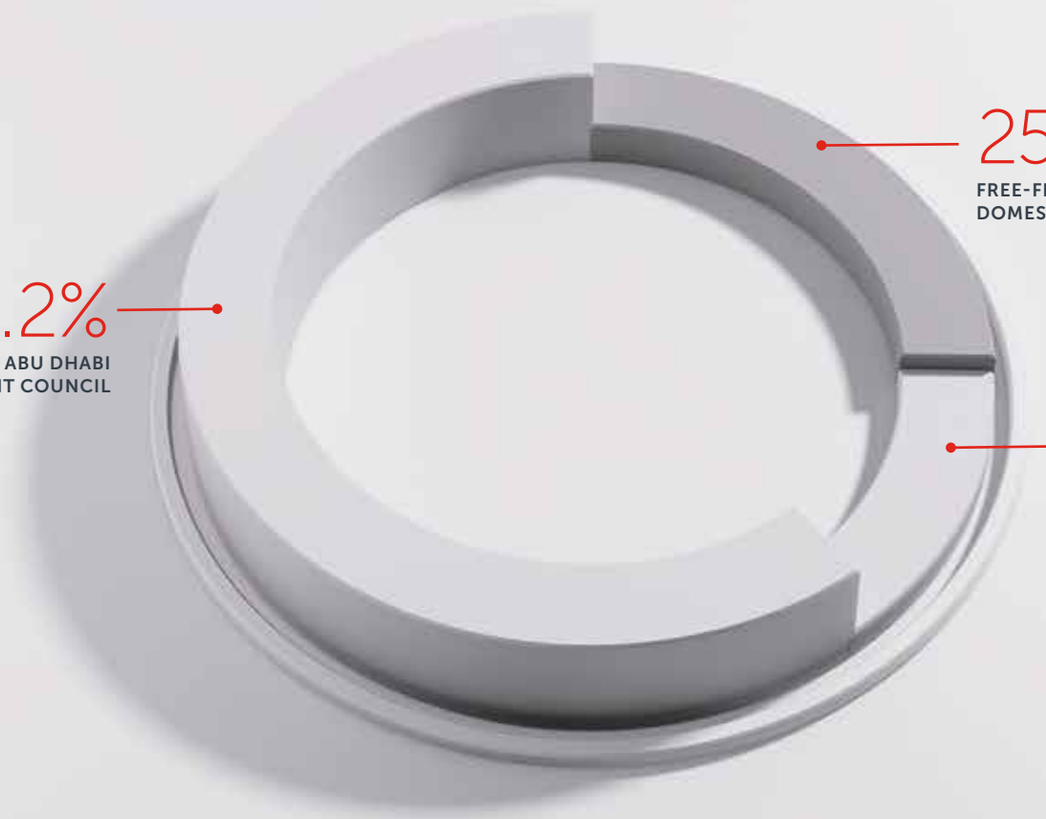
72
BRANCHES IN THE UAE

RATINGS:

A/A-1/ Stable
S&P

A+/F1/ Stable
FITCH

Ownership Structure



OVERVIEW





CHAIRMAN'S MESSAGE

On behalf of the ADCB Group Board of Directors, I am pleased to introduce ADCB's Annual Report for 2019, which opened a new chapter in our history. The Bank successfully executed a complex combination without any disruption to business as usual.



EISSA MOHAMED ALSUWAIDI
CHAIRMAN

RECOMMENDED CASH DIVIDEND OF AED 0.38 PER SHARE[1]

Equivalent to 50% of pro forma net profit

The merger between ADCB and Union National Bank, and the subsequent acquisition of Al Hilal Bank was a landmark transaction. Our enlarged group has the strength and expertise to play a greater role in the country's economic development. Within the UAE, the Bank has reinforced its position as the third-largest bank by assets, whilst we rank number five in the GCC region. With the addition of Al Hilal Bank, which is a wholly owned subsidiary, we have significantly strengthened our Islamic banking franchise.

The transaction has made ADCB a stronger, more resilient, bank with larger scale. The enlarged Bank has the capacity to invest significantly in its infrastructure and to remain at the forefront of our fast-changing industry. It will provide the excellence and convenience that customers demand, whilst staying ahead of an evolving regulatory environment.

The Bank continues to have diverse institutional ownership and has strong support from the Government. The Abu Dhabi Government, through the Abu Dhabi Investment Council, owns 60.2% of our shareholding. We also have a growing share of foreign investors. As of 31 December 2019, foreign shareholders owned almost 15% of the Bank's share capital.

STRATEGIC FOCUS

The five pillars of our strategy are the driving force of our success. We remain focused on the UAE economy and delivering superior customer experience. We continue to promote sustainability through liability growth and funding diversification, whilst managing risk effectively. Finally, digital transformation remains a key pillar for our growth.

Digital also plays a central part in our strategy for Al Hilal Bank. Through Al Hilal Bank, the group will expand its Islamic banking footprint and capture a growing population who want to use Shari'ah-compliant digital retail products.

Our strategy is enabled by attracting and rewarding the best talent while nurturing an agile organisation and a healthy culture.

STRONG CULTURE

It is part of our responsibility as a Board to encourage and nurture an active and healthy corporate culture across the Bank. Your Board was very pleased to note that an external assessment reported that the Bank's culture rates favourably as against companies worldwide. We believe that, beyond any other factors within its own control, culture and organisational health is the strongest driver of a corporate's capacity for success.

Our values remain intact following the merger and work has begun on a series of initiatives to reinforce the strength of our culture and further improve organisational health. This will include continuing to enhance our performance-oriented and merit-based culture and to continue to invest in learning and development programmes.

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

SUCCESSFUL INTEGRATION

The smooth passage of the integration process was the result of many factors, including the strength of our governance framework. We established a solid integration governance framework and created a masterplan to ensure best practice was followed throughout the integration process.

However, the key factor, driven by our strong culture and values, was the meticulous planning and intensive efforts by the staff and consultants involved. The integration process involved all of the Bank's staff and every employee played a part in ensuring its success.

EMIRATISATION

A core element of our strategy is to attract and reward suitable talent, with a particular focus on UAE Nationals. The Board is pleased that ADCB has consistently met the Emiratisation targets set by the UAE Central Bank and that Al Hilal Bank has the highest percentage of UAE National employees across the sector.

The Board is also pleased that, following the merger, many UAE National staff continue to occupy roles within the Bank's senior management.

RECOMMENDED DIVIDEND

Despite the challenges presented by the global economy, we delivered a creditable financial performance in 2019. The Board remains focused on creating value for shareholders and we are confident that by executing our strategy and delivering efficiencies, we will continue to drive sustainable growth. For the 2019 financial year, the Board has recommended a cash dividend of AED 0.38 per share. This translates to a payout of AED 2.644 billion, equivalent to 50% of pro forma net profit. This dividend payment is subject to approval at the Annual General Meeting.

THE BOARD

This year, the composition of the Board was changed. We want to express our thanks to those Board members who stepped down during the year and to wish them good fortune in their future endeavours. They all contributed significantly to the success of the Bank over the past few years.

The Board welcomes the appointment of our new independent non-executive directors during 2019 and wishes them the very best in serving the Bank in future.

We held 54 full Board or Committee meetings in 2019. During those meetings your Directors engaged constructively with management, guiding and challenging their decisions in a spirit of openness and transparency. The Board consistently emphasises the importance of governance and culture throughout our communication.

LOOKING AHEAD

As we continue to pursue profitable growth and capitalise on the scale of our business, the local markets will remain challenging. In particular, geopolitical factors are likely to continue to influence local markets, including hydrocarbon prices. Within these conditions it is important that we follow our strategy in a disciplined manner, focusing our efforts around our core market of the UAE, and managing risk effectively.

Meanwhile, we will continue our investments in technology and infrastructure to support our digital transformation and enhance customer experience.

We will reinforce and deepen our culture and focus on governance and continue to invest in our talent, particularly UAE Nationals, to ensure ADCB remains an employer of choice in the UAE.

OUR THANKS

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 to the UAE Central Bank.

The Board would also like to thank our shareholders, every one of our valued customers — both existing and new — our incoming and outgoing Board members, the ADCB executive management team and all our staff for their continued dedication and support.

In particular, the Board extends its appreciation to everyone, including staff, senior management and consultants, who helped with the merger and integration process, creating a bank that is ready for whatever the future may hold.

EISSA MOHAMED ALSUWAIDI

CHAIRMAN



"A core element of our strategy is to attract and reward suitable talent, with a particular focus on UAE Nationals."



Economic Overview

The UAE continued to benefit from a stable and diversified economy with strong macroeconomic fundamentals, despite the lower growth environment. Moves to boost competitiveness of the economy were underpinned by a series of reforms and government support measures designed to nurture expansion.

The government's expansionary fiscal stance and the outlook for an increase in project awards in Abu Dhabi provided vital support for the economy alongside the build-up to the forthcoming Expo 2020. The pro-business policies and reforms, as well as the measures to develop new sectors, are positive for the medium to longer-term outlook for the economy.

Nevertheless, the economic environment remained challenging as external and domestic headwinds continued to dampen growth. The ongoing global slowdown plied pressure to key sectors with geopolitical development adding to regional uncertainties.

Deflationary pressures also emerged, particularly related to the real estate market, and UAE businesses continued to restructure and consolidate to drive efficiencies. This added to an already soft labour market and impacted consumer confidence.

NON-OIL SECTOR STIMULUS

To stimulate greater activity in the non-oil sector and to encourage the creation of new and emerging industries, the government has spearheaded a number of fiscal and structural programmes.

A key ongoing initiative was Ghadan 21, announced in 2018. The three-year, AED 50 billion package was established to accelerate the economic agenda and Abu Dhabi's transformation to a new world economy.

The budgets released so far for 2020 indicate a supportive level of spending. The 2020 UAE federal budget is the most extensive spending plan in its history and will help to accelerate growth. The government also maintained lower fees to reduce pressure on corporates and boost the domestic economy.

Monetary policy is also more accommodating as the Central Bank of the UAE followed the Fed in lowering benchmark repo rates by 75 basis points in the second half of 2019.

INVESTMENT ACTIVITY

The government continues to make the UAE a more attractive international investment proposition. In 2019, it relaxed foreign investment restrictions by opening up a range of sectors and economic activities to 100% foreign ownership. Moreover, the government also introduced reforms for long-term residency.

The country remains the leading regional destination for foreign direct investments, which last year delivered approximately AED 40 billion, or around 3% of GDP. The government target is to raise this to 5% by 2021.

The countdown to Expo 2020, which opens in Dubai for a six-month run in October 2020, continued to drive project implementation activity across the tourism, transport, hospitality and retail sectors.



At the same time there was growing momentum in a range of project awards in Abu Dhabi, most related to infrastructure supporting the hydrocarbon sector and ADNOC's broad-based, multi-year investment programme in the region.

There was also pick up in projects related to leisure and tourism, including the SeaWorld theme park on Yas Island and the ongoing work at the Zayed National Museum project on Saadiyat Island, where work began late last year.

ECONOMIC CHALLENGES

The strong USD continued to impact the external competitiveness of the non-oil sector, whilst the slowdown in global growth with heightened trade tensions between China and the US was an additional challenge.

Price discounting was seen in a number of areas, including hotels, which was central in boosting tourism. This has supported a gradual rise in visitor numbers.

Property sale and rental prices continued to contract in both Abu Dhabi and Dubai as the supply growth in housing continued to outstrip the increase in demand.

BANKING SECTOR LIQUIDITY

The slow growth environment was reflected in the banking sector, where credit growth was driven largely by the government and government related entities (GREs). Demand from the private sector and corporates remained broadly flat.

Banking sector liquidity remained ample and saw credit growth of 6.2% in 2019, with deposits growing 6.5% year on year.

We expect banking sector liquidity to remain comfortable in 2020 with only a contained fiscal deficit forecast, albeit from a surplus in 2019.

LOOKING AHEAD

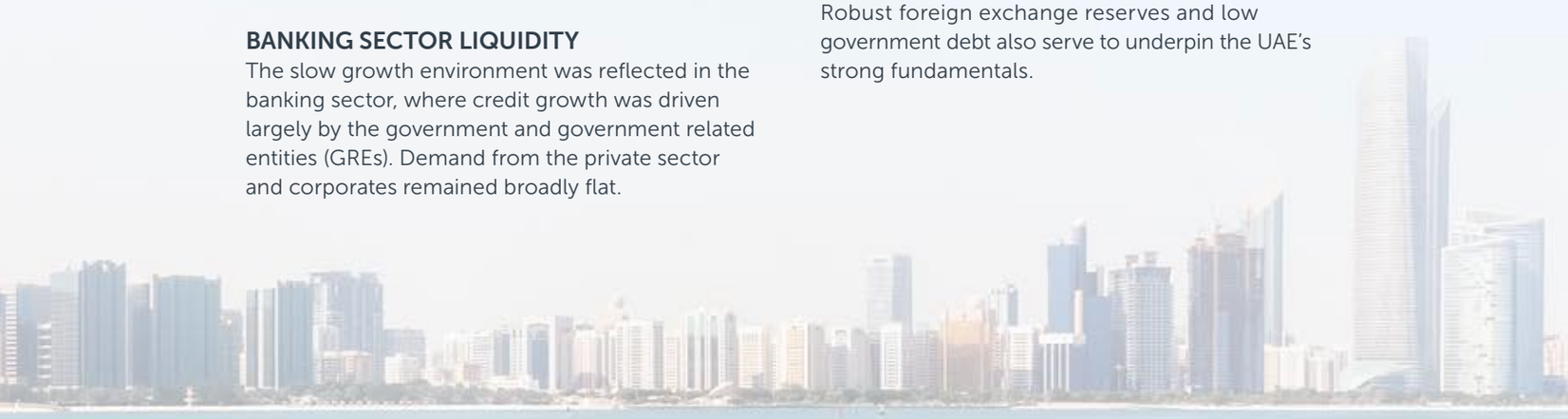
The government's drive to invigorate the economy through its forward-looking strategy and reforms will continue to be a significant support in building positive momentum in the UAE.

In Abu Dhabi there are signs of progress with the medium-term investment programme.

The final push for the successful delivery of Expo 2020 will also serve to support growth.

We expect oil prices to continue to face pressure from moderating global demand. Nevertheless, the UAE remains one of the most resilient hydrocarbon-exporting economies in the world with a strong ability to withstand oil price volatility.

Robust foreign exchange reserves and low government debt also serve to underpin the UAE's strong fundamentals.



Business Model

Our longstanding and successful business model is designed to capture the opportunities that allow us to create sustainable value for all stakeholders.



OUR RESOURCES

Leadership
An experienced Board supported by a highly-skilled senior leadership team.

Employees
We have highly-skilled employees from 82 nations, united by shared values and an agile culture. 1,479 of our workforce are UAE Nationals.

Brand
A leading UAE bank with a growing customer base and an unrivaled reputation.

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

Strength
A resilient bank, with more than AED 405 billion in total assets, robust liquidity, and top tier international ratings.

Innovation
Digital technological strength and capability for an outstanding customer experience.

OUR VALUE CREATION

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.

Society
We play a supporting role in the socio-economic 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.

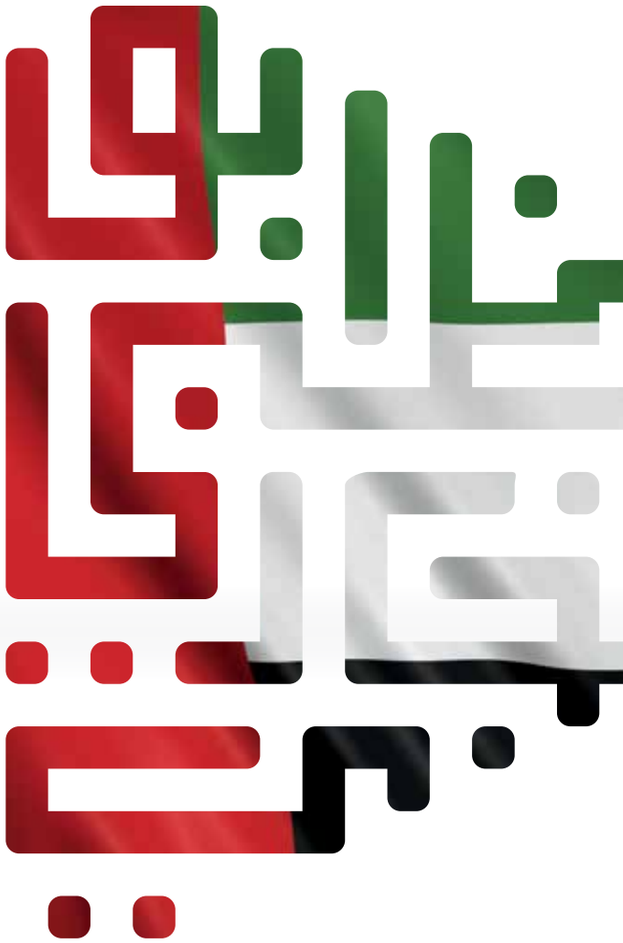
Investors
Delivering robust returns and long-term sustainable value. In 2019, the Bank reported AED 5.244 billion pro forma net profit with a return on average tangible equity of 11.2%.

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.

WHAT WE DELIVER
Banking products and services for a diverse customer base through our four business segments:

- Wholesale Banking Group
- Consumer Banking Group
- Treasury and Investments Group
- Property Management



STRATEGY


THINK DIGITAL

GROUP CEO'S MESSAGE

At the end of a momentous year, ADCB has emerged as a larger, stronger and more resilient Bank. I am pleased to report that we have once again delivered a robust performance for our stakeholders.



ALA'A ERAIQAT

GROUP CHIEF EXECUTIVE OFFICER
MEMBER OF THE BOARD OF DIRECTORS

With a full-year pro forma net profit of AED 5.244 billion, we delivered a double-digit return on average tangible equity of 11.2% and a dividend pay-out equivalent to 50% of pro forma net profit.[1]

These figures are only part of our story in 2019. We began the year merging with Union National Bank. Together, the combined entity acquired Al Hilal Bank, which has allowed us to build an even stronger Islamic banking franchise in the UAE.

We appointed a new CEO at Al Hilal Bank and activated a detailed strategy to create a leading digital-first Islamic retail bank. As part of this strategy, the migration of Al Hilal Bank's Wholesale Banking and SME portfolios was fast-tracked into the ADCB Islamic Wholesale Banking platform in just a few months.

We worked on a bank-wide seamless integration process, rapidly moving ahead of schedule and driving substantial cost synergies along the way. Meanwhile, we continued to provide exceptional service standards to a growing customer base, while continuing to develop our people, businesses and technology.

The enhanced strength and scale we now have empowers us to do more to support the ambitions of the UAE and our stakeholders. It means we can provide customers with more support through our range of products and services, we can do more to help businesses to thrive, we can invest more in our people and technology, and we can deliver stronger returns to our investors.

I am proud to have been part of such a tremendous journey undertaken at such a powerful pace. It is a true demonstration of what can be achieved through a clear strategy, hard work and ambition.

EMIRATI EXCELLENCE

Empowering UAE Nationals is a top priority at the Bank. We are dedicated to making our organisation a centre of excellence for Emiratis, providing a pathway to senior leadership positions. Today, the ADCB Group employs 1,479 UAE Nationals, who occupy roles at every level. Meanwhile, at Al Hilal Bank, 48% of the staff are Emirati — the highest among all UAE banks.

ADCB has consistently exceeded the Emiratisation targets set by the UAE Central Bank. We believe that by nurturing our national talent, we are also nurturing the Bank and the UAE economy.

UNIFIED AND ENHANCED

The integration process that followed our merger in May set new records compared to regional peer benchmarks. Working together, we achieved branch interoperability and completed a significant rebranding exercise in just five months. It was a stellar performance.

Through detailed planning and preparation, we were able to seamlessly combine and optimise the entire ADCB and UNB branch and ATM networks in early October. We also rolled out the ADCB brand across all physical and digital channels. This was achieved in a window of just 40 hours, enabling us to provide a unified and enhanced experience to more than one million customers.

1,479
EMIRATIS EMPLOYED ACROSS THE GROUP

48%
EMIRATISATION RATE AT AL HILAL BANK

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



TOTAL ASSETS



PRO FORMA
NET PROFIT

The speed and efficiency of the transition were helped by strong collaboration between teams and disciplined governance. It was empowered by our people and a deep-seated commitment to our exceptional culture and strong values of integrity, care, discipline, respect and ambition. Teams from across the Bank came together like never before, smashing silos and overcoming each new challenge that came their way.

We all had a role to play. For some, it was about calling on their considerable skills and experience to manage unprecedented change at a rapid pace. For others, it was about harmonising systems, processes and policies to pave the way for a flawless integration process. For others still, it was about ensuring that no matter what else was happening, it was business as usual for all our customers who have come to expect exceptional service as standard.

EMPOWERING SUSTAINABLE GROWTH

Our success has been driven by our commitment to a strategy that remains consistent, clear and compelling. Our five powerful strategic pillars support our enduring growth. ADCB remains a UAE-centric Bank, providing long-term sustainability through liability growth and an outstanding customer experience.

This is reflected in the AED 7.3 billion increase in our current and savings account (CASA) deposits over 2018, which totalled AED 102 billion in 2019. In a highly-competitive market with declining interest rates, this was a significant achievement, and testament to the confidence that customers continue to place in ADCB.

By continuing to be risk-aware and harnessing the power of digitisation, we will create the most valuable and resilient bank in the UAE and achieve our ambition of becoming the number-one bank of choice.

CUSTOMER EXCELLENCE

We lead the way in our collective passion for customer experience, delivered through service excellence. That is one of the reasons that, despite the enormous challenges the integration process brought, we never lost sight of our customers and their needs.

It is important to acknowledge that while the Bank has relished and embraced the multitude of changes that have come with transformation, some things remain the same.

Our ambition to continue to do more for our customers and to make banking simpler, easier and more secure remains unchanged. We are committed to helping them by delivering outstanding customer service, world-class products and cutting-edge digital access.

DIGITAL STRENGTH

A core pillar of our successful strategy is to exploit digital for growth and efficiency. The progress of our transformation remains strong, and we continued to enhance existing platforms as well as launching new initiatives in 2019.

We unveiled Hayyak, our intuitive onboarding app that makes account opening simpler and faster. We were the first bank in the UAE to introduce a Virtual Accounts service to help companies reduce the costs and complexities of cash management, and the first to run an end-to-end blockchain trade finance transaction in the country.

Our collaboration with a range of fintechs and their ecosystems has also stimulated digital innovation, helping us to bring added value and efficiencies through these strategic partnerships.

ETHICAL AND SOCIAL BANKING

As a responsible bank, we believe in clear communication and being open and honest with our customers and our staff. Our group-wide ethical banking initiative has delivered greater clarity and transparency in areas such as terms and conditions, fees and charges, and our processes.

This has already changed the way we communicate with customers. Many physical letters were replaced with more concise and tailored emails and SMS messages, which bring greater transparency for customers to enable faster and easier banking.

We are committed to raising financial literacy and awareness amongst young adults in the UAE, encouraging the adoption of responsible lending and sound fiscal management practices. In doing so, we hope to ensure a stronger economic future for generations to come. Our longstanding partnership with local organisations continues to support this vital objective, as does the success of our MoneySense programme.

FUTURE READY

This year was a powerful demonstration of what we can achieve by working together, and I am proud of our accomplishments. We are now better placed than ever to meet the challenges and to capture the opportunities that the future holds.

The long-term outlook for the UAE economy is positive and will be driven by continued investment in social and economic initiatives to promote sustainable growth. As a significant financial institution in the UAE, ADCB fully supports these developments to create lasting positive change for the benefit of our stakeholders and the wider community.

I want to thank the Chairman, members of the Board and the executive management team for their support this year. I also want to acknowledge all of our employees who have worked so hard at every level to achieve our success.

IN MEMORY OF SIDDIQA ABBAS

It is with great sadness that I also report our colleague Siddiqa Abbas, Group Chief Operations Officer, passed away in February 2020. She was a key member of the senior leadership team, who made a significant contribution to ADCB for more than 15 years. During her time with the Bank, she served in a variety of roles and was an inspiration to everyone she worked with. We all pray for the eternal peace of her departed soul.



ALA'A ERAIQAT
GROUP CHIEF EXECUTIVE OFFICER
MEMBER OF THE BOARD OF DIRECTORS

Group Strategy

Our long-term strategy is a critical component of our robust performance as the ADCB Group continues to grow in scale. The five core pillars which support this strategy remain clear and consistent.

By retaining our focus on delivering these strategic goals, living our shared values, and capitalising on our enablers, we have created a resilient organisation, empowered by innovation, excellence, and outstanding customer service.





Our Strategic Approach

OUR AMBITION

To be the number-one bank of choice in the UAE

OUR 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

OUR ENABLERS

ATTRACTING AND REWARDING THE BEST TALENT

AGILE ORGANISATION AND INNOVATIVE CULTURE

OUR VALUES

INTEGRITY | CARE | AMBITION | RESPECT | DISCIPLINE

Strategic Pillars

OUR STRATEGIC PILLARS	HOW WE ACHIEVE THEM	WHAT WE DID IN 2019
1. 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 and 72 branches in the UAE • 94% of our gross loans were in the UAE • Delivered a return on average tangible equity of 11.2%
2. 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 262 billion comprised 75% of total liabilities • CASA deposits were at AED 102 billion • Loan-to-deposit ratio stood at 95.4% • Wholesale funding comprised 17% of total liabilities, providing further diversification
3. 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 (see page 38) • 30% of every employee's performance objectives are measured against customer service
4. 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 0.80% • Enhanced bank-wide controls and security • Created a new role of Head of Data Management • For more, please read the Risk Management section on page 46
5. 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.	• Delivered new online services and tools for retail and corporate clients to improve customer onboarding, financing and trade workflows • Launched new mobile banking apps such as Hayyak and Ahlan • First bank to launch Virtual Accounts service for corporates in the UAE • For more, please read the Business Review section on page 68

ENABLED THROUGH	HOW WE ACHIEVE THEM
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.

Key Performance Indicators

KPI/STRATEGIC AIM	HOW WE MEASURE	2019
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.	617% 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 I capital notes. To increase ROATE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.	11.2%
MOST EFFICIENT	Cost-to-income ratio Calculated by dividing operating expenses by operating income. 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.	37.0%[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 0.70
BEST CUSTOMER SERVICE	Net Promoter Score (NPS) 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. According to leading consultants, an increase of five points year on year is widely regarded as a significant achievement.	Since 2015 ADCB's NPS scores have improved significantly across all areas of the business (see next page)

1 Excluding integration related costs; including integration related costs, the Bank's cost-to-income ratio for 2019 was 39.6%.

Enhanced customer experience

IN 2019, WE INVESTED IN THE FOLLOWING AREAS TO ENHANCE CUSTOMER EXPERIENCE:

STAFF TRAINED IN SERVICE	CUSTOMERS SPOKEN TO FOR FEEDBACK	CUSTOMERS' FEEDBACK ON DIGITAL PRODUCTS
1,701	114,257	1,474
STAFF PROVIDED FEEDBACK ON INTERNAL SERVICE PROVIDERS	**MYSTERY SHOPPING AUDITS**	**CUSTOMER EXPERIENCE AND SERVICE QUALITY FORUMS**
34,555	13,164	21

Net Promoter Score (NPS)

In our journey towards service excellence, we have been able to improve the NPS in each of the business segments over the past four years.

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.

According to leading consultants, an increase of five points year on year is widely regarded as a significant achievement.

VARIATION IN NPS POINTS FROM 2015







Al Hilal Bank — a new dawn for Islamic banking in the UAE




مصرف الهلال
al hilal bank

As the new CEO, Abdul Shakeel leads Al Hilal Bank with a new sense of purpose and a powerful digital strategy. The Bank has a strong brand and a robust and growing footprint.

Our strategy is to reinvigorate retail Islamic banking and attract a new generation of customers for whom ethical and transparent banking is of increasing importance. The addition of Al Hilal Bank to the ADCB Group provides an opportunity to create the leading digital-first Islamic bank in the UAE.

One way we will achieve this is by using advanced and innovative technology to enhance our range of digital channels. This will provide greater levels of accessibility and convenience for our customers. Another way is to continuously monitor and improve our customer service levels to ensure we are delivering an excellent experience at every touchpoint.

BRAND STRENGTH

Al Hilal Bank has a strong brand and a solid reputation across the UAE. We will build on this to establish a larger, digitally-led, retail bank offering a comprehensive suite of Shari'ah-compliant banking products.

While we expect the majority of transactions to be electronic, we remain committed to the personal touch that our experienced branch staff provide for our customers. By supporting the needs of our existing customers and appealing to the next generation, we will continue to grow our reputation and market share significantly.



مصرف الهلال
al hilal bank

ABDUL SHAKEEL
CEO

The Bank has been greatly enhanced as a result of becoming part of the ADCB Group. One of the many benefits is the creation of a highly-capable leadership team. Following the transaction, the Bank's majority shareholder, Abu Dhabi Investment Council, appointed an experienced new Board, led by Ala'a Eraiqat, Group CEO at ADCB, as Chairman. The Board will focus on driving the next stage of Al Hilal Bank's growth through a culture of strong risk management and disciplined corporate governance.

Abdul Shakeel was appointed as CEO to spearhead the Bank's strategy for growth and to lead the digital journey. He brings more than 25 years of banking industry experience, with deep expertise in retail banking, digital innovation and risk management. For the past 15 years he held a variety of senior positions at ADCB, most recently as Head of Retail Banking. In that capacity he managed a team of 2,000 professionals and launched many of ADCB's award-winning consumer products and digital banking channels.

DRIVING EFFICIENCY

The majority of the Wholesale and SME portfolios were successfully migrated to ADCB within a few months of the acquisition, enabling Al Hilal Bank to focus fully on retail banking.

To capitalise on synergies, we integrated ADCB and Al Hilal Bank's treasury functions, including centralising liquidity and funding. We merged our back office functions to ensure best-practice, higher efficiency and better customer service levels. We also harmonised credit policies and enhanced our risk profile to provide greater resilience.



Elsewhere, we worked hard to develop our organisational culture and values to more closely align with those of ADCB.

As a result Al Hilal Bank is now a leaner, more efficient, organisation with a focus on promoting local talent — 48% of all employees are UAE Nationals, the highest in the UAE banking industry.

DIGITAL PACE

One digital milestone this year was the launch of Ahlan, a state-of-the art onboarding mobile app, that allows customers to open a new account in just a few minutes. Modelled on the onboarding app introduced to customers at ADCB, we designed, created and delivered the application to customers in just two months. Feedback was overwhelmingly positive, demonstrating a healthy appetite for greater digital functionality.

We upgraded our mobile app and internet banking platform to add capability which improved navigation, and enhanced user experience. For added security, we introduced secure fingerprint and facial recognition technology. Customers can register for the app using their card number, choose to bank in English or Arabic and carry out transactions with convenient features such as the ability to add beneficiaries to their account using just an IBAN number.

At the same time, we optimised our channels to attract new customers and to provide easier, faster access to the Bank. Al Hilal Bank customers now have access to 13 branches and an expanded network of ATMs across the UAE. With the fee-free use of ADCB's teller machines, customers now have the choice of over 500 ATMs to make cash withdrawals and balance enquiries.

Looking ahead, we will make greater use of data analytics and behavioural economics to help drive our digital strategy to ensure our technology meets the needs of our digital-savvy Islamic retail customers.

Subsidiaries

In addition to our core banking businesses, ADCB Group is supported by a number of subsidiaries which help us to add even greater value to our customers and the UAE economy. The four featured here provide a snapshot of the success they drive.



ADCP
شركة أبوظبي التجاري للعقارات
Abu Dhabi Commercial Properties

MOHAMED BINBREK
GENERAL MANAGER

Established in 2007, ADCP operates one of the largest mixed-use real estate portfolios within the region. ADCP provides tailored property management solutions representing public, private and corporate landlords across the UAE. Following the merger in 2019, UNB's Al Wifaq Properties and the real estate division of Al Hilal Bank, were successfully integrated into ADCP, further enhancing customer reach and offering a broader portfolio.

57,000
INDIVIDUAL LEASEHOLD TENANCIES ADMINISTERED

18,000
PROPERTY OWNER ENQUIRIES SERVICED

260,000
CHILD LOCKS FITTED ON WINDOWS IN HIGH RISE PROPERTIES

4,000
UNITS ADDED TO OUR PORTFOLIO IN 2019



ADCE
أبوظبي التجاري للخدمات الهندسية
Abu Dhabi Commercial Engineering Services

HAZEM JABER
GENERAL MANAGER

Created in 2007 as the engineering arm of ADCB, ADCE provides engineering-related project management services, from design conception to completion. Our modern and innovative buildings are situated throughout the city. We employ a team of experienced professionals, who have developed lasting relationships with our clients.

670
VENDORS ADDED IN 2019

WORKING WITH
1,175
CONTRACTORS AND SUB-CONTRACTORS

1,700
LANDLORDS

550+
PROJECTS

3,600
TECHNICAL MEMOS ISSUED



أبوظبي التجاري
ADCB
SECURITIES للأوراق المالية

HASAN SALEM AL HOSANI
GENERAL MANAGER

ADCB Securities, founded in 2005, is our brokerage house which offers customers full access to trade through the UAE's stock exchanges. With capital of AED 71 million, it is regulated by the SCA (Securities & Commodities Authority) to trade in ADX (Abu Dhabi Securities Exchange), DFM (Dubai Financial Market), and NASDAQ Dubai. In 2019, we successfully integrated with Union Brokerage Company (UBC) and received an award from DFM for being the most active brokerage firm in trading via a mobile app.

AED 25 bn
TOTAL ASSETS UNDER CUSTODY

AED 1.1 bn
TOTAL TRADE VALUE THROUGH ONLINE TRADING CHANNELS

AED 462 mn
TOTAL LENDING THROUGH MARGIN ACCOUNTS

16,000+
TOTAL CLIENT BASE



ITMAM
شركة إتمام للخدمات
Itmam Services Company

ASHOK LUHARUWALLA
GENERAL MANAGER

ITMAM, meaning "We Get things Done" in Arabic, was established in 2014 to provide operational support to the ADCB Group. This includes account opening, transaction processing, credit underwriting and contact centre operations among others.
We use a Net Promoter Score framework to assess customer satisfaction to deliver an outstanding customer experience.

98.4%
OVERALL SERVICE LEVEL TARGETS ACHIEVED

10%
INCREASE IN TOTAL VOLUMES

34%
CONSUMER BANKING ACCOUNTS OPENED THROUGH HAYYAK

96%+
COMPLIANCE WITH ADCB PROMISE AND SERVICE STANDARDS IN MYSTERY SHOPPING AUDITS

Risk Management

Risk is a fundamental part of our business and underpins every decision we make. Our proactive approach is driven by our values, which play an integral role in enforcing the discipline needed to protect the Bank, its customers and our reputation.

We remain a systemically important Bank and a consistent and sustainable performance depends on our ability to mitigate and manage risk at every level successfully.

Guided by our values of Integrity, Care, Ambition, Respect and Discipline every employee is expected to play an active part in our risk management.



This year we have made substantial progress in enhancing our approach to risk by strengthening our robust risk management governance structure and framework. As a result of the merger and the increase in our scale, we have established matrix reporting for the various risk functions based in our subsidiaries and overseas branches. They now report into their respective ADCB Head Office functional Heads which ensures alignment with and consistency in processes and procedures.

ACTIVITY IN 2019

The strength of this framework was crucial in delivering the successful integration of UNB and Al Hilal Bank into the ADCB Group in 2019. Following the merger, we reviewed our entire risk management framework, updating and harmonising policies and processes to ensure every element continued to comply with international best-practices and the standards and regulations set out by the UAE Central Bank.

In particular, we reviewed our risk profile and appetites, compliance, operational risk, and information security.

RISK PROFILE REVIEWED

The Bank regularly reviews its risk appetite to ensure it aligns with macro-economic scenarios, shareholder objectives, regulatory changes and best-practice. As a result of the merger, we made some adjustments to our risk appetite.

Four principles are inherent in the Bank's framework — business models, organisational capabilities and skills, financial strength, and monitoring. Our Risk Appetite Statement encompasses all of ADCB's capabilities and uses realistically achievable parameters.

Each year we evaluate 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 framework guides other metrics set by management at line, business and portfolio levels which must be consistent with the overall Group appetite.

This year, we added 10 new metrics and enhanced the measurements of a further 13 across seven of the 10 Principal Risks. These changes are better aligned with regulatory, stakeholder, and investor expectations — for example, they consider real estate concentrations, IFRS 9 stage distribution, and portfolio NPLs.

Internally-developed metrics provide proxy parameters for previously not measured risks, such as Compliance, Conduct, Financial Crime, Technology, and Reputation. They ensure the Bank's full enterprise risk profile is measured, monitored and aligned with our overall Group strategy.

Our risk appetite is established by identifying the amount and type of risks considered reasonable to deliver on our business strategy and to ensure 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

ENHANCED METRICS

This year, we added 10 new metrics and enhanced the measurements of a further 13 across seven of the 10 Principal Risks.

- Financial crime and resolution, anti-money laundering and political exposure
- Information and technology risks
- Market and price valuations
- Liquidity and funding gaps, liability concentrations, 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 Risk and Credit Committee and then cascaded down to every department and individual throughout the organisation.

OPERATIONAL RISK ENHANCED

In 2019, we reinforced our approach to operational risk and implemented it across the enlarged group. We reviewed and enhanced our operational risk policy and framework, aligned our business continuity management policy and tools, and agreed on crisis management protocols.

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 an unexpected disruptive event. These plans are tested regularly, and we hold an ISO22301:2012 certification which illustrates the high standards we employ.

As well as regular training to ensure wide-spread risk awareness, this year we implemented a new process for the escalation of operational risk events across the entire network.

Meanwhile, to help drive a more deep-rooted data culture across the Bank — where we collect, analyse, and deploy data to make better decisions — we appointed a Head of Data Management. The role is designed to help to develop further and embed the set of principles we use to govern the management of our data. This is particularly significant with the growth of digital channels both into and out of the Bank, and as we increase our use of data analytics to serve customers better.

The Head of Data Management will also help in the development of APIs and open banking. In addition, he will ensure we are fully compliant with the new regulations around general data protection to mirror the GDPR requirements brought in by the EU in May 2018.

INFORMATION SECURITY UPGRADED

We enhanced our information security risk framework, providing improved detection, protection and response times. We focused on improving security operations efficiency, while incorporating security resilience across the Bank, upgrading our threat hunting capabilities, and enhancing our reporting processes.

We take a proactive approach to cybersecurity, using advanced analytics and machine learning to detect potential breaches before they happen.

As part of this programme, we integrated Security Automation and Orchestration (SOAR) into our systems for better protection. SOAR, a machine-driven technology, enables us to collect security threats data and alerts from different sources, then immediately analyse them to define, prioritise and act on them instantly.

At the same time, we established a Managed Detection and Response (MDR) network monitoring capability across all internet gateways, including scans of email traffic, which is also capable of detecting threats that have passed other traditional perimeter security tools. We also reviewed payments systems access and carried out an extensive physical security review of all 72 branches.

Fraud continues to be a concern as the number of attacks grow and increase in their sophistication. This year we introduced several new measures across the group to strengthen our protection and to raise awareness amongst our employees and our customers.

We look forward to the results of the Financial Action Task Force's (FATF) mutual evaluation process carried out in the UAE in July. FATF carried out interviews across ministries, financial sector bodies and a range of non-financial businesses to examine the strength of the country's anti-money laundering (AML) and combating the financing of terrorism (CFT) laws and their effectiveness in practice. This report is due in early 2020 and the Bank will respond to support any actions required by the Central Bank of the UAE.

This year we also engaged a team of independent external consultants to validate our compliance with the UAE Information Assurance Standard issued by the Central Bank in September 2018. Our compliance levels were confirmed to be 97% — with detailed action plans and delivery dates in place for full compliance by early 2020.

RISK CULTURE STRENGTHENED

ADCB benefits from a strong risk culture where 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. We foster individual accountability through a focus on the Three Lines of Defence model.

In the organisational health survey in which more than 80% of staff took part, the scores for risk management were some of the highest in the Group. The survey placed ADCB Group Risk Management in the top decile of global companies.

These scores demonstrate the strength of our leadership and the importance of culture in risk. Our employees believe they are supported and encouraged to take responsibility through clear operational discipline.

ETHICAL BANKING DEVELOPED

Driven by our commitment to customer excellence, we attach great importance to protecting consumers and ensuring there are minimal levels of complaint. This year we increased 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.

01

FIRST LINE OF DEFENCE

Business line management is responsible for the identification and control of risks in the first instance.

02

SECOND LINE OF DEFENCE

The Bank's risk control and compliance oversight functions make up the second line of defence.

03

THIRD LINE OF DEFENCE

Independent assurance, through our internal audit team, is the third line of defence.

Roles & responsibilities (risk governance)

BOARD
ESTABLISH & ENSURE STRONG CONTROL ENVIRONMENT

MANAGEMENT EXECUTIVE COMMITTEE
OVERSIGHT & IMPLEMENT

RISK MANAGEMENT FUNCTION
GOVERNANCE & COMPLIANCE

BUSINESS LINE MANAGEMENT RESPONSIBILITY
OWNERSHIP

INTERNAL AUDIT
ASSURANCE

Our risk performance

CAPITAL PLANNING PROCESS

Regulators view the systemic risk of bank failures very seriously. The loss they can cause to depositors and the costs of bailouts by the government can be substantial, and as a result, the capital structure of banks is subject to rigorous regulation. 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 strategic decision-making.

CAPITAL PLANNING IN ACTION

In practical terms, the role of capital in any bank is to provide creditor protection. Capital acts as a buffer against potential losses, thereby protecting depositors and other creditors. Provisions offer a cushion against expected losses. For a more detailed study of our Risk management, please see our separate Basel III — Pillar III report.

EXTERNAL RISK SCENARIOS

We regularly identify and monitor specific external risks. These are events that could lead to a significant, unexpected adverse outcome with the potential to cause ADCB, or one of its divisions, to fail to meet its strategic objectives.

We consider the financial and reputational implications of each risk. On the next page, we identify the types of external threats that could materially affect the UAE banking system and ADCB itself. These include macroeconomic conditions, geopolitical risks, the additional costs and rigours imposed by enhanced regulatory requirements, risks related to information technology and data security, and concentration risks.

KPI	2019
CAPITAL	
Common equity tier 1 (CET1) ratio	13.53%
LIQUIDITY	
Liquidity coverage ratio (LCR)	127.3%
Deposit concentration (Top 10 depositors)	26%
CREDIT	
Investment-grade exposures as a % of total exposures (excluding unrated)	59%
Loan-to-value ratio of retail mortgages	76.2%
20 most significant customer loan exposures as a % of gross loans	27.58%
Non-performing loan (NPL) ratio	3.16%[1]
Provision coverage ratio	123.2%[2]
Cost of risk	0.80%

1 4.53% NPL ratio including POCI, net.
2 Includes fair value adjustments on loans and advances of AED 3.2 billion for computing coverage ratio.

External risk scenarios

EXTERNAL RISK	DEFINITION AND POTENTIAL IMPACT	MITIGATION STRATEGY
Macroeconomic conditions in the operating markets	Prolonged volatility in the price of oil will affect the UAE economy and those of other GCC countries. Forecasts are for GDP growth rates to remain low with limited credit growth.	The Bank will refine its Risk Appetite to the variety of industries with which it deals and will continue to adhere to the credit risk metrics already in place that address various portfolio dimensions.
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.	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.	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. In the past few years, the Bank has launched several initiatives to reduce reputational risk to our business model. For example, our Customer Experience Committee ensures that customers enjoy a superior and consistent experience. We have well-developed policies and procedures to deal with customer complaints, and all front-office staff and officers are trained to deal with customer concerns promptly.
Integration Risk	The impact of our merger with UNB and the acquisition of Al Hilal Bank could result in lack of oversight, process lapses or inadequate policy/ portfolio amalgamation.	The impact of the merger and integration process is reviewed and assessed each week by a steering committee chaired by the Group Chief Executive Officer. Each area has a working group, with a documented action plan and an operational readiness plan to ensure seamless integration. The Bank has identified and adopted target operating models for all risk areas, rolled out enterprise-wide risk appetite, harmonised its risk models and portfolio monitoring reports, and adopted a unified approach to ECL and risk practices. The teams are fully integrated and cross-trained on the new policies and procedures. ADCB's Group risk policies are based on the core tenet of responsible growth within a pre-defined risk appetite.

Principal risks

PRINCIPAL RISK TYPE	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 Group 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, BRCC, 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 Group'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 which 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 misselling and having a rigorous process to ensure products and services we sell are suitable to customers.	**Accountable Executives:** Management Executive Committee members **Accountable Committees:** MEC, NCHRG, BACC, Board

PRINCIPAL RISK TYPE	DEFINITION	APPROACH	OVERSIGHT
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 CB. 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, SBRCC, 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

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: Change from 2018

Low Medium High

Principal risks (continued)

PRINCIPAL RISK TYPE	DEFINITION	APPROACH	OVERSIGHT
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 Group'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 which 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 will 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 and Group Chief Risk Officer **Accountable Committees:** MEC, BRCC, 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 Group'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, BRCC, Board

PRINCIPAL RISK TYPE	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 Group'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, BRCC, 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, and 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 would 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 happening.	**Accountable Executives:** Business Heads, Head of Operational Risk, Head of Fraud & Investigations, Group Chief Risk Officer **Accountable Committees:** Operational Risk Working Group, MEC, BACC, BRCC, 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 Group and where appropriate, will adequately make provisions for the same in a timely manner.	**Accountable Executives:** Management Executive Committee members **Accountable Committees:** BACC, Board

PERFORMANCE





GROUP CFO'S MESSAGE

ADCB has undergone a significant transformation in the past 12 months following the merger with UNB, and the subsequent acquisition of Al Hilal Bank. The changes have propelled the Bank to a stronger position, enhancing our scale and reach.

The results featured in this letter are based on the full-year pro forma financial statements for the combined entity, following the merger between ADCB and UNB, and the subsequent acquisition of Al Hilal Bank, both on 1 May 2019.[1]



DEEPAK KHULLAR
GROUP CHIEF FINANCIAL OFFICER

The enlarged ADCB Group is more resilient and well-equipped for sustainable growth. We are better able to navigate ongoing economic headwinds and adapt to the changing regulatory environment.

In a fragmented banking sector, dominated by a few large players, our size and scale mean we are well-positioned to capitalise on more opportunities to drive growth in a competitive market. Following the merger, our market share has grown significantly. We are now the third-largest bank by market capitalisation, the third-largest by assets in the UAE, and the third-largest retail lender in the country. With Al Hilal Bank, we have also become the fourth-largest Islamic banking franchise.

REALISING SYNERGIES

Our results in 2019, particularly those in Q4, were a demonstration of how the merger and integration process rapidly paved the way for greater efficiencies and a sustainable reduction to our cost base.

While pro forma net profit of AED 5.244 billion was down on last year, we continued to deliver a double-digit return on average tangible equity of 11.2%. Pro forma net profit excluding integration-related costs was 9% lower at AED 5.590 billion as improvements in operating expenses and higher non-interest income were offset by higher cost of funds and impairment charges.

The Bank is quickly moving to realise synergies, and our commitment to a rapid and effective integration process has already delivered significant savings. We saved AED 350 million in cost synergies as a result of the merger and boosted shareholder value through an upward revision to our target in October 2019.

We achieved this through greater manpower efficiency and productivity enhancements, optimising the branch and ATM networks, and realising economies of scale from IT integration. One-off integration costs totalled AED 346 million at year-end, in line with the planned integration expenditure of AED 980 million.

We are on track to meet our run-rate synergy target of AED 840 million annually — up 37% on the preliminary assessment of AED 615 million.

Fourth quarter cost-to-income ratio (excluding integration-related costs) showed an improvement of 440 basis points at 35.1%, compared to 39.5% a year earlier — supported by robust post-merger synergies. These synergies and greater efficiencies also resulted in a 2% year-on-year reduction in pro forma operating expenses to AED 1.285 billion in Q4; excluding one-off integration-related costs, we saw an improvement of 9%.

Q4 pro forma operating profit before impairment allowances also increased significantly, up 6% year-on-year to AED 2.008 billion; excluding integration-related costs, the figure rose by 10%.

Meanwhile, full year pro forma non-interest income increased by 3% on last year to AED 2.760 billion. This was largely due to a narrower revaluation loss through income statement on investment properties in the last quarter.



REALISED SYNERGIES IN 2019



RUN-RATE SYNERGY TARGET PER ANNUM BY THE END OF 2021

1 The pro forma financial information consists of the unaudited pro forma condensed consolidated statement of financial position of ADCB, UNB and AHB (together referred to as ''the Group'') as at December 31, 2019, as if the merger had taken place as at January 1, 2018, and its unaudited pro forma condensed consolidated income statement for the year ended December 31, 2019, and notes to the unaudited pro forma financial information.

The purpose of the pro forma financial information is to show the material effects that the merger of ADCB and UNB with subsequent acquisition of AHB would have had on the historical consolidated statement of financial position if the Group had already existed in the structure created by the combination as at January 1, 2018 and on the historical consolidated income statement for the year ended December 31, 2019.

STRONG BALANCE SHEET

Our balance sheet remains resilient and the Bank maintains a strong liquidity profile and capital position.

Our total assets reached AED 405 billion in 2019. Net loans to customers were at AED 250 billion. In line with our UAE-centric strategy, 94% of our loan portfolio was within the country and remained well-diversified across both business segments and economic sectors.

Total customer deposits stood at AED 262 billion, falling by 8% as a result of the Bank's decision to exit more expensive time deposits to focus on growing low-cost current and savings account (CASA) deposits.

In 2019 our CASA crossed the AED 100 billion mark for the first time in the Bank's history, to a total of AED 102 billion. This was a significant achievement and represented an increase of AED 7 billion year-on-year. CASA deposits comprised 39% of total customer deposits, compared to 33% a year ago.

The Bank's loan-to-deposit ratio remained healthy at 95.4%, and our liquidity coverage ratio of 127.3% was well above the minimum of 100% set by the UAE Central Bank. In the interbank markets, ADCB continued to be a net lender of AED 10 billion in 2019.

Non-performing loans declined to AED 8.491 billion and net purchase or originated credit impaired (POCI) assets (loans only) were AED 3.710 billion at year end. Our non-performing loan ratio (NPL) fell to 3.16%, while NPL ratio including net POCI assets stood at 4.53%. As at 31 December 2019, cost of risk was 0.80%, compared to 0.74% a year earlier.

CAPITAL STRENGTH

As a Domestic Systemically Important Bank (DSIB) in the UAE, we continue to be well-placed to meet regulatory requirements and have a robust Basel III capital adequacy ratio of 16.9%, with a common equity tier 1 (CET1) ratio of 13.5%.

Our credit ratings are solid. International ratings agencies Fitch and Standard & Poor's reaffirmed our credit ratings following the merger at A+ and A respectively — a reflection of ADCB's strong fundamentals.



NET LOANS



CUSTOMER DEPOSITS



CASA CONTRIBUTION TO TOTAL CUSTOMER DEPOSITS

FAST-PACED INTEGRATION

The pace of our merger and integration set new records, well ahead of previous industry precedents.

We made significant progress in aligning our governance framework, organisational structure, customer experience, systems and culture. Immediately after the legal completion of the transaction in May, we implemented an end-state organisational structure, establishing a leaner franchise. Also, within one month of legal completion of the transaction, we harmonised credit policies to ensure best practice across the Group, and fully integrated the treasury functions, with centralised management of liquidity and funding.

The full integration of Al Hilal Bank into the ADCB Group was completed in the third quarter, which included the migration of the corporate and SME portfolios to the ADCB platform.

In October 2019, we combined and optimised the entire ADCB and UNB branch and ATM networks, and rolled out the ADCB brand across all physical and digital channels. This major milestone was achieved in a highly ambitious timeframe of five months.

While integration work continues at a rapid pace to deliver key milestones on schedule, the Group remains focused on protecting and growing its businesses through an unwavering commitment to excellent customer service.

2020 VISION

We are now midway through the final phase of integration. IT systems and infrastructure will be fully integrated in the second quarter of 2020 and all former UNB customers will have had their accounts migrated to the ADCB platform.

In 2019, the pace of our transformation was powerful and we are committed to continuing the momentum we built.

We will capitalise on the synergies and operating efficiencies that the merger has delivered to ensure greater value for shareholders.

I would like to extend my thanks to our employees for all their hard work and dedication throughout the year. The Bank is future-ready, better placed than ever to rise to tomorrow's challenges, and grasp the opportunities we are seeing in a rapidly transforming UAE economy.



DEEPAK KHULLAR

GROUP CHIEF FINANCIAL OFFICER

Financial Overview

The past year was a powerful demonstration of what the ADCB Group can accomplish with a clear strategy, a robust governance framework, and close collaboration. This financial overview is part of that demonstration, reflecting our adherence to financial discipline and a prudent approach to risk management.

The figures and charts that feature in the following pages provide a more detailed insight into our financial performance this year. These results are based on the full year pro forma financial statements for the combined entity, following the merger between ADCB and UNB, and the subsequent acquisition of Al Hilal Bank on 1 May 2019.

The results show we are well-placed to grasp the opportunities we are seeing in a rapidly transforming UAE economy.



2019 Financial Highlights

	Year on year trend			Quarterly Trend				
			Change %				*Q4'19 Change %*	
INCOME STATEMENT HIGHLIGHTS (AED MN)	**2019**	**2018**	**YoY**	**Q4'19**	**Q3'19**	**Q4'18**	**QoQ**	**YoY**
Total net interest and Islamic financing income	**10,452**	11,098	(6)	**2,711**	2,522	2,766	7	(2)
Non-interest income	**2,760**	2,687	3	**583**	749	444	(22)	31
Operating income	**13,212**	13,786	(4)	**3,293**	3,272	3,210	1	3
Operating expenses[1]	**(5,235)**	(5,126)	2	**(1,285)**	(1,279)	(1,314)	0	(2)
Operating profit before impairment allowances	**7,977**	8,660	(8)	**2,008**	1,993	1,896	1	6
Impairment allowances	**(2,655)**	(2,436)	9	**(909)**	(572)	(616)	59	48
Share in profit/(loss) of associate	**23**	(6)	NM	10	2	3	NM	NM
Overseas tax expense and loss from discontinued operations	**(101)**	(92)	10	(61)	(10)	(38)	NM	61
Net profit for the period	**5,244**	6,126	(14)	**1,048**	1,413	1,244	(26)	(16)

				Change %	
BALANCE SHEET HIGHLIGHTS (AED MN)	**DEC'19**	**SEP'19**	**DEC'18**	**QoQ**	**YoY**
Total assets	**405,135**	406,916	423,419	0	(4)
Net loans and advances	**250,017**	249,530	260,340	0	(4)
Deposits from customers	**262,094**	262,533	285,417	0	(8)

RATIOS (%)	**DEC'19**	**SEP'19**	**DEC'18**	**BPS**	**BPS**
CAR (Capital adequacy ratio - Basel III)	**16.89**	16.57	17.74	32	(85)
CET1 (Common equity tier 1) ratio	**13.53**	13.19	13.85	34	(32)
Loan to deposit ratio	**95.4**	95.0	91.2	40	420

Figures may not add up due to rounding differences

1 Operating expenses include non-recurring expenses pertaining to integration-related costs of AED 129 million in Q4'19, AED 107 million in Q3'19, AED 72 million in Q2'19, AED 38 million in Q1'19, and AED 46 million in Q4'18.

SOLID RETURN ON AVERAGE TANGIBLE EQUITY, IMPROVING COST OF FUNDS AND NET INTEREST MARGIN IN Q4'19

The Bank reported Q4'19 net profit of AED 1.048 billion and full year group net profit at AED 5.244 billion, with a double-digit annualised return on average tangible equity of 11.2%. Full year net profit, before one-off integration costs was 9% lower at AED 5.590 billion amid a soft operating environment, with improvements in operating expenses and higher non-interest income offset by higher cost of funds and impairment charges.

KEY INDICATORS

RETURN ON AVERAGE TANGIBLE EQUITY (ROATE %)[2]

11.2%

RETURN ON AVERAGE ASSETS (ROAA %)[2]

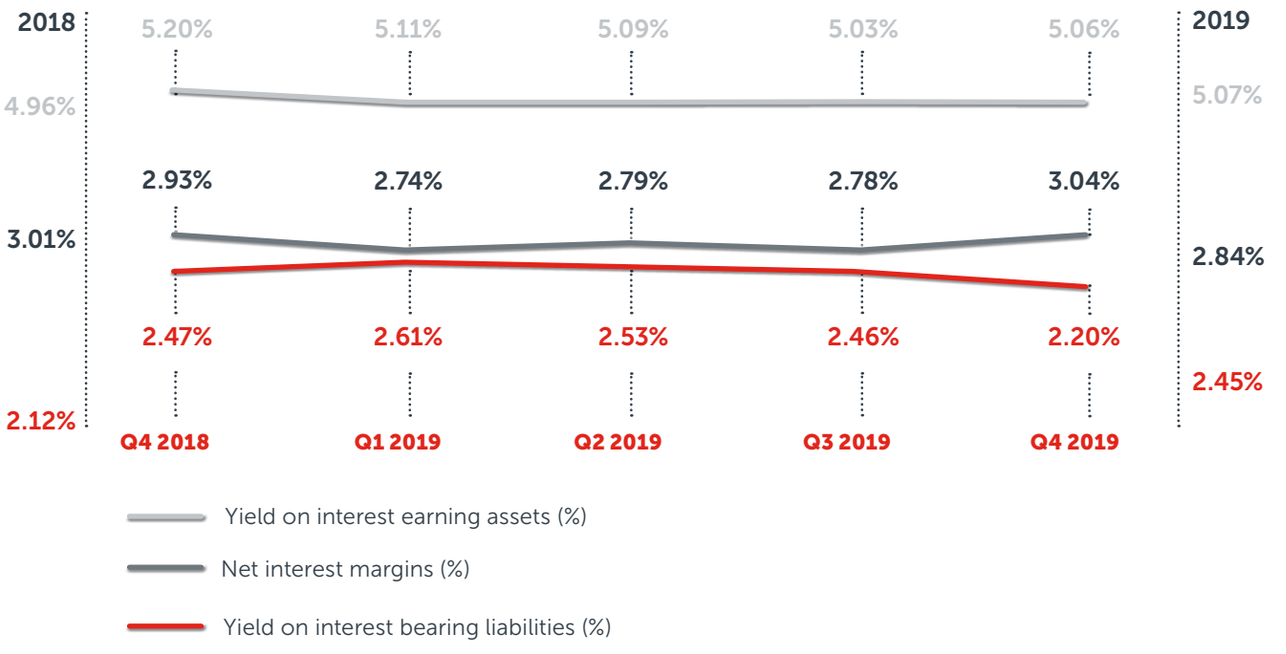
1.18%

The one-off increase in Q4'19 impairment charges was primarily on account of a true-up on retail impairments post acquisition date after apportioning into fair value adjustments and impairment charges.

The Bank benefitted from a 41 basis point decrease in its cost of funds from Q1'19 to 2.20% in Q4'19. This improvement was primarily on account of the Bank's strategy to grow CASA deposits and exit expensive time deposits, as well as declining benchmark rates. Consequently, net interest margin widened sequentially to 3.04% in Q4'19 from 2.78% in Q3'19, while net interest income increased by 7% on a quarterly basis to AED 2.711 billion in Q4'19.

Despite this improvement in the second half of 2019, cost of funds for the full year was higher than in 2018, due to higher volumes of deposits and higher benchmark rates in Q1'19 compared to Q2'19. This resulted in a 6% decrease in net interest income to AED 10.452 billion in 2019.

EVOLUTION OF YIELDS



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

MERGER BENEFITS MATERIALISING THROUGH SUSTAINABLE REDUCTION OF COST BASE, Q4'19 COST TO INCOME RATIO IMPROVED

440

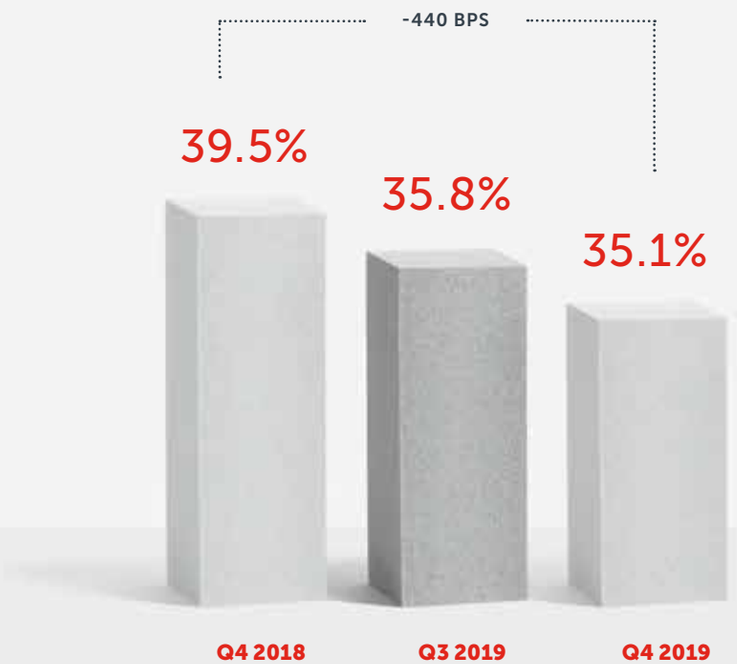
BASIS POINTS YEAR-ON-YEAR

Full year non-interest income of AED 2.760 billion was up 3% year on year, largely due to a narrower revaluation loss on investment properties over 2018. Net fees and commission income was 4% lower at AED 1.996 billion, primarily attributable to lower loan processing fees. Trading income also decreased due to lower gains from foreign exchange and securities trading.

Q4'19 results reflect the positive impact of the merger, with synergies and greater efficiencies resulting in a year-on-year decrease in operating expenses and a rise in operating profit. Operating expenses for Q4'19 were 2% lower year on year at AED 1.285 billion, and 9% lower when excluding one-off integration related costs. Cost to income ratio for the quarter, excluding integration-related costs, stood at 35.1% compared to 39.5% for the same period last year — an improvement of 440 basis points. Operating profit before impairment allowances increased by 6% to AED 2.008 billion year on year in Q4, and was up 10% when excluding integration-related costs.

In October 2019, the Group made an upward revision of run-rate synergy targets to AED 840 million, from the initial assessment of AED 615 million. The Bank has realised synergies of AED 350 million to date, while integration costs — at AED 346 million to date — are in line with the planned one-off integration expenditure of AED 980 million.

COST-TO-INCOME RATIO EXCLUDING INTEGRATION-RELATED COSTS

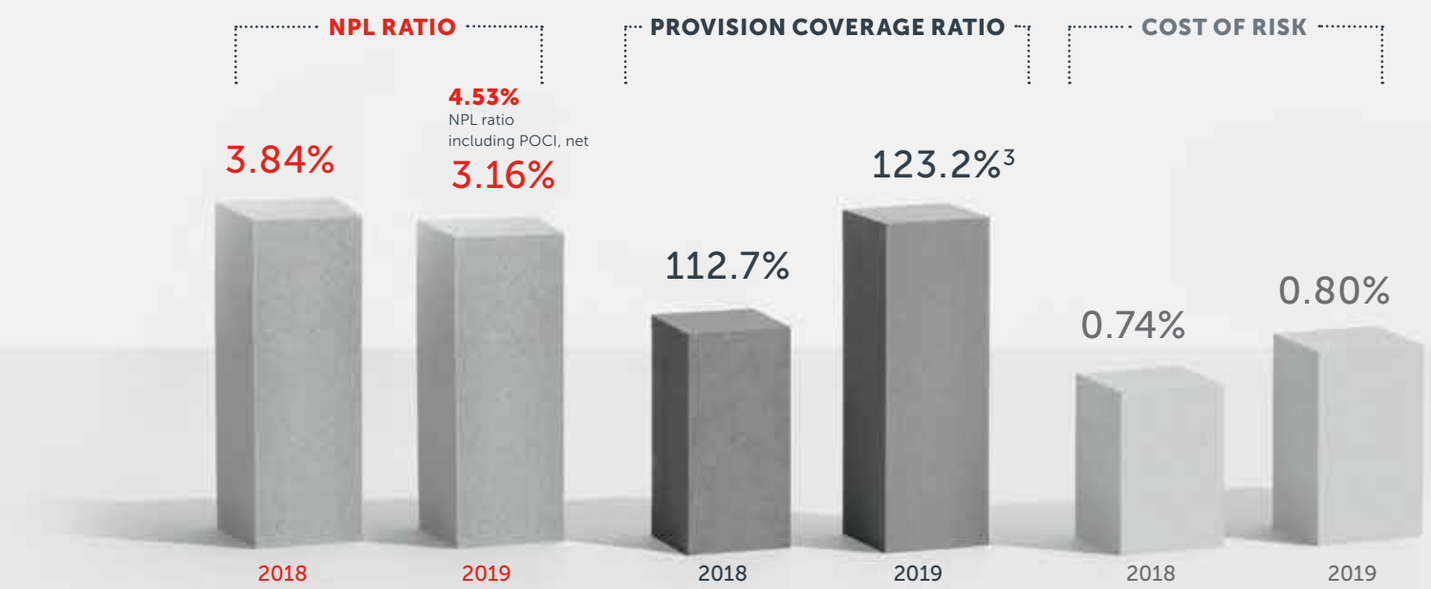


RESILIENT BALANCE SHEET, SIGNIFICANT INCREASE IN LOW-COST CASA DEPOSITS

The Group's balance sheet remains strong, with total assets standing at AED 405 billion as at 31 December 2019. Following the merger with Union National Bank and acquisition of Al Hilal Bank, the Bank is continuing with a comprehensive purchase price allocation (PPA) process, which is expected to be completed by the first quarter of 2020.

Net loans to customers were at AED 250 billion, a decline of 4% from 31 December 2018, mainly on account of a rise in corporate repayments and fair value adjustments. Total customer deposits decreased 8% to AED 262 billion, driven by the Bank's strategic decision to exit expensive time deposits. Year-on-year, time deposits decreased by 16% to AED 160 billion, while CASA balances increased by AED 7 billion (8%) to AED 102 billion. CASA deposits comprised 39% of total customer deposits compared to 33.1% as at 31 December 2018.

As at 31 December 2019, the non-performing loan ratio (NPL) was 3.16%, while NPL ratio including net POCI (purchase or originated credit impaired) assets stood at 4.53%. Total impairment allowances were AED 10.464 billion, while the provision coverage ratio improved to 123.2%[3] from 112.7% at the prior year end. Non-performing loans declined to AED 8.491 billion and net POCI assets (loans only) were AED 3.710 billion. As at 31 December 2019, cost of risk was 0.80%, compared to 0.74% a year earlier.

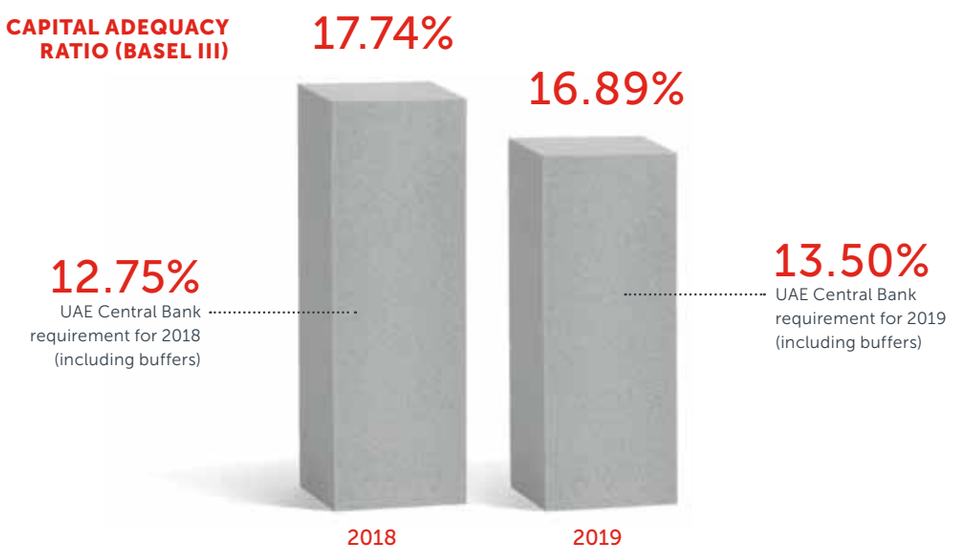


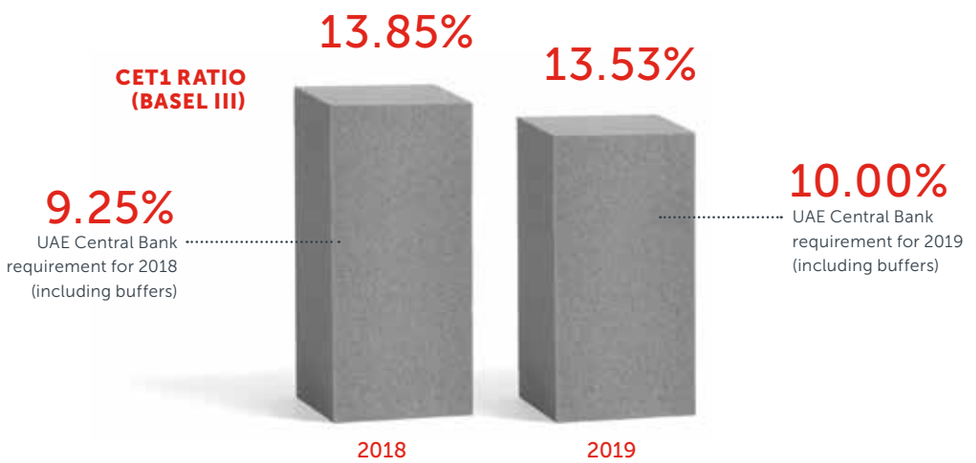
3 Includes fair value adjustments on loans and advances of AED 3.2 billion for computing coverage ratio.

ROBUST LIQUIDITY POSITION, CAPITAL RATIOS COMFORTABLY ABOVE THE MINIMUM REGULATORY REQUIREMENTS

The Bank continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 127.3%, compared to a minimum ratio of 100% prescribed by the UAE Central Bank. The liquidity ratio was 26.1% and the Bank was a net lender of AED 10 billion in the interbank markets.

The Bank remains well capitalised with a Basel III capital adequacy ratio (CAR) of 16.89% and a common equity tier 1 (CET1) ratio of 13.53%, comfortably above the minimum capital requirements of 13.50% and 10.00% respectively as prescribed by the UAE Central Bank (including buffers).





WHAT WE DO

The Consumer Banking Group (CBG) supports our retail and high-net-worth customers with a range of specialist products and services in conventional and Shari'ah-compliant banking. We have 72 branches across the UAE, five digital uBank centres, over 450 ATMs, a 24/7 contact centre, leading online and mobile banking applications and a strong direct sales force.

Consumer Banking Group (CBG)

We significantly strengthened our retail franchise in 2019. Our increased scale means we can do more for our customers, supporting them through our multi-channel sales and distribution footprint and an expanded branch network in the UAE. As at 31 December 2019, total assets for Consumer Banking stood at AED 108 billion whilst total liabilities were AED 86 billion.

Customer Day One

BRAND INTEGRATION

One of the most significant events in the year was the combination of our branch network under the ADCB brand in preparation for our first day as a combined entity — 'Customer Day One'.

OVER ONE WEEKEND IN OCTOBER WE:

- Rebranded 24 former UNB branches with ADCB signage and every other touchpoint
- Removed 230 former UNB ATMs and replaced them with more than 80 new ADCB machines
- Set up a command centre with more than 40 people to monitor and resolve issues from branches on the spot
- Rebranded 15 digital channels and interconnected 30 platforms



Within only five months of the legal merger of ADCB and UNB on 1 May 2019, we combined the branch and ATM networks in the UAE and rolled out the ADCB brand across all customer channels. Since early October, we have served all of our customers, whether ADCB or former UNB, at an expanded network of 72 branches and more than 450 ATMs, providing consistent and high-quality service. This was a key milestone in delivering a unified and enhanced banking experience to over one million customers under the ADCB brand.

We spent months carefully planning and preparing for the switch, working with teams from across the two banks to accelerate our progress towards full integration. It was essential to provide seamless interoperability between ADCB and former UNB branches to ensure that customers could continue to carry out their daily transactions without disruption.

Interoperability ensured that ADCB customers could be served at former UNB branches and ATMs, and UNB customers could do the same at ADCB. Customers welcomed the transition, with interoperable transactions immediately accounting for a high proportion of total branch transactions.

This success was the result of detailed planning, close cross-functional coordination and rigorous operational implementation. Extensive staff training ensured consistent service standards across the Bank, while a phased communication campaign provided customers with timely information on all changes and new banking opportunities.

CUSTOMER FOCUS

Our customer-centric ethos remains central to our strategy and our success. We have a loyal and engaged customer base that reflects the demographics of the country and has driven strong momentum across the business.

One of the crucial ways in which we stand out as a bank is our focus on providing customers with outstanding service. We do this by fully understanding their needs and expectations and by recognising loyalty.

More than 45% of our retail customers have banked with us for five years or longer, which is a strong reflection of the strength of our strategy, particularly given the proportion of the transient population in the region.

A clear and robust service guarantee and quality control measures are embedded in the business. We monitor our progress using the Net Promoter Score and a series of fast feedback loops to follow the 10 most critical customer journeys to ensure a continuous improvement cycle.

As well as providing a first-class experience for our customers, we are also committed to rewarding their loyalty. TouchPoints, our bank-wide loyalty programme, rewards customers with points that can be redeemed at a growing number of suppliers. More than 96% of TouchPoints are redeemed digitally, either at one of more than 3,500 point-of-sale machines or online.

The success of the scheme and the loyalty it drives, has meant that TouchPoints has become a currency in its own right. We have partnered with a number of merchants who have purchased around 155 million TouchPoints to reward their customers.



This year we also launched a new range of "money can't buy" experiences to reward our customers, including a gourmet staycation at Dibba Bay Oyster Farm, the Middle East's first shellfish farm, growing gourmet oysters.

Meanwhile, our partnerships with Etihad and Lulu Hypermarkets also served to deliver greater value to customers through a growing range of rewards. Our highly-successful Traveller Credit Card rewards frequent travellers, while the Etihad Guest Above Credit and Debit Cards benefit customers with Etihad Airways miles.

The credit card book was further boosted by SimplyLife, our mass-market banking proposition. It is now a significant and profitable brand variant and attracted an additional 20% of new-to-bank customers this year.

PRIVATE BANKING

ADCB Private, our private banking business, continues to be well-diversified and has once again demonstrated steady growth. The number of high-net-worth individuals and families to benefit from the expert knowledge and insight we provide increased by 4.6% year-on-year, while assets under management rose to over AED 12 billion.

Our specialised wealth management strategies are supported by a highly-experienced team with knowledge of both the local and international marketplaces. We offer our customers exceptional personal support with the depth of our relationships and through our concierge service.

We also benefit from our well-established presence in the Abu Dhabi Global Market (ADGM), Abu Dhabi's International Financial Centre, with our private banking centre.

We remain a leading presence in private banking in the UAE. All these achievements act as a stable platform on which to grow in 2020 and beyond. Enhancing our digital platforms also forms a central part of our plans.

DIGITAL ENHANCEMENT

Building on our success, we continued the pace of our digital transformation initiatives that focused on customer acquisition and engagement as well as asset penetration and wealth management.

With the launch of Hayyak, a new onboarding application, we gave customers an easier and faster way to open a new account, cutting the time it takes from days to just a few minutes. 34% of all new accounts opened this year have been through this platform. We are already working on introducing a new loan facility that will give successful applicants access to cash in less than 15 minutes on their smartphone.

MoneyBuddy, launched last year, remains our fastest-growing mobile application ever. The personal finance management tool enables customers to analyse their spending, manage expenses, and set savings goals with ease. More than 20,000 users signed up in the first four months after launch and numbers have been increasing steadily every month.

More than 75% of our customers now connect to the Bank via digital channels and the number continues to grow. Digital banking is the first choice for customers and is driving a substantial increase in the number of transactions. Mobile Banking is also the preferred channel for cross-border remittances, where we have a healthy share in a growing market.

To support this, we made enhancements across our mobile banking applications, adding functionality and dual-language support in Arabic and English. At the same time, we introduced Apple Pay and Samsung Pay digital wallets, and increased personal controls on credit card usage. This has helped us to improve our market share of digital wallet transactions, while boosting our share of credit card spend to 14.5%.

MERCHANT SERVICES

Through our highly-successful merchant acquiring business, we supported almost 4,500 companies with flexible, secure and comprehensive payment solutions — an increase of 80% over 2018.

Set up just three years ago, the business has already established a 4% market share. It supports a range of merchants across the UAE with secure, end-to-end solutions for a broad range of products and services across sectors that include education, transportation, government and retail.

This year alone, there were more than 40 million transactions through some 15,000 terminals in 6,500 locations across the country, driven predominantly by our existing customers.

We are positive about our growth in 2020 as we continue to lead the way in consumer banking in the UAE. We will maintain our focus on providing our customers with the best products and services to help drive their ambition.

ISLAMIC BANKING

ADCB is now the fourth-largest Islamic banking franchise in the UAE, offering a wide range of Shari'ah-compliant products and services. With the acquisition of Al Hilal Bank, which is dedicated exclusively to digital retail Islamic banking products and services, the Group now has a strong market share and is well-positioned for greater growth. You can read more about Al Hilal Bank on page 40.

Demand for Islamic banking products and services continue to grow as customers look for more ethical ways to deposit or to borrow money.

In 2019, we continued to build on our strong platform with a sustained focus on providing greater innovation and an enhanced customer experience. All this is designed to give customers frictionless access to a set of robust Islamic banking products and services.

To underpin our expertise, our Islamic banking team benefits from an extensive training and development programme. This year our Islamic Banking Academy enrolled more than 1,600 employees in face-to-face classroom sessions as well as a full range of online courses. This training helps to raise awareness of the benefits of Shari'ah-compliant banking and ensures we are better able to provide our customers with the support and advice they need.

Next year, we will further consolidate our position as a leading Islamic banking franchise by offering more innovative products, delivering a superior customer experience and providing omnichannel access. Using data-driven customer insights and digital delivery, we will also focus on expanding our share in the finance, cards and deposit space.

Wholesale Banking Group (WBG)

This year the Wholesale Banking Group has grown in its scale and scope with an increased portfolio driven by the three-way merger. As well as giving us greater resilience, the transaction has allowed us to use our size to increase wholesale financing to corporate clients by leveraging a larger balance sheet and competitive cost of funds.

WHAT WE DO

We provide a full portfolio of corporate banking services for our clients, including world-class transaction banking and investment banking.

Our clients range from government-related entities (GREs) to large corporates, mid-sized corporates and small-to-medium-sized enterprises (SMEs) as well as financial institutions.

We provide additional value through our strategic transaction banking relationships with Bank of America Merrill Lynch, Banco Santander and Korea's Kookmin Bank.



As at 31 December 2019, total assets for Wholesale Banking stood at AED 171 billion, whilst total liabilities were AED 129 billion.

We have boosted our deposit and CASA business by delivering our distinctive cash management proposition to a broader base. We have also been able to provide more support to mid-sized corporates and SMEs.

Driven by our strategic focus on the UAE market, we have exited our operations in India. In 2019, our banking portfolio, which comprised AED 355 million in assets and AED 601 million in liabilities, was sold to DCB Bank, a private commercial bank based in India, at par. The deal had no impact on the Bank's profitability.

SEAMLESS INTEGRATION

The migration of Al Hilal Bank's Wholesale Banking and SME portfolios was fast-tracked into the ADCB Islamic Wholesale Banking platform just a few months after the legal merger. This was achieved without any disruption to clients and paved the way for growth across an enlarged loan book, in line with our plan.

The migration was delivered seamlessly thanks to excellent forward-planning and a highly-motivated team who were well-prepared. The experience meant we were better equipped for the integration of the UNB wholesale book. We successfully migrated half of the total portfolio in 2019, with full migration expected in the first quarter in 2020.

LEADING THE WAY

Our performance is underpinned by the power and depth of our client relationships and the strength of our industry knowledge. We also provide a diverse range of wholesale products and services and industry-leading advice. This provides the Bank with a distinct advantage and sets us apart from our competitors.

Our award-winning cash management business leads the way in the UAE, supporting a growing number of customers with their collection, payment, and reporting and reconciliation needs.

By offering outstanding customer service and innovation across our digital channels, we are continuing to make banking more straightforward and secure for our clients.

This year, we were the first Bank to roll out a new Virtual Accounts service — one of the biggest developments in cash management technology in banking in recent years. The solution provides support for any company which deals with numerous clients and suppliers who want to improve the reconciliation of financial statements.

Under just one physical account, we can create an unlimited number of virtual accounts that link to it. By reducing the need for physical accounts, the service promotes clarity and saves cost without compromising on functionality or reporting.

We already have a growing number of customers who have benefitted from the solution. These include Etihad Aviation Group and Abu Dhabi National Oil Company (ADNOC), the leading distributor of fuels to commercial, industrial and government customers throughout the UAE. You can read more about our partnership with ADNOC on page 76.

In 2019, we played a significant part in many deals that helped to support and strengthen the economy and infrastructure across the UAE. Our financing activities continued to play a critical role in how we supported our larger transactions and added significant value to the Bank.

We worked on a number of mandates across all sectors in 2019. These included:

- Working with National Paints, the largest paint business in the UAE, to underwrite a loan for a restructure of the company
- Acting as the sole initial mandated lead arranger, bookrunner and underwriter for a USD 300 million seven-year unsecured term loan for Dubai Aerospace
- Refinancing support for Tecom worth AED 650 million of the overall AED 7 billion refinancing package
- Supporting Meraas Holdings in their AED 4.7 billion syndicated loan transaction

This year we also broadened the scope of our investment bank to provide a greater focus on our strategy to 'originate to distribute' by underwriting transactions, which are subsequently syndicated. This invaluable support helps our clients to grow.

Transactions range from landmark deals to local mid-corporates, as well as financial institutions. The expansion of this capability has enabled the Bank to become an active and influential player in the domestic market with a distribution network that spans the GCC, wider Asia, Europe, Africa and the Americas.

Against a backdrop of ongoing challenges in the economy and stricter credit criteria, we continued our strong support for the mid-corporate and SME sectors.

In 2019, we onboarded 2,938 new SME customers and provided 10,800 new loan facilities. In our mid-corporate business, we onboarded 371 new customers. An average of 91% of mid-corporate and 89% of SME transactions were performed on automated platforms and channels, reflecting our advanced digital capabilities.

The Bank was also very active in its support for the Government and GRE sector, where we continued to deepen our involvements, while enhancing our performance.

We have a strong relationship with the Real Estate Regulatory Agency. Driven by the real estate sector, we are now the largest Escrow bank in the country, operating in four of the seven Emirates. With more than a decade of experience in Escrow management, we provide end-to-end solutions to protect the funds of both buyers and developers. This growth has been as a result of the service and technology we have been able to provide.

The customer experience is an essential part of our strategic drive, and we regularly monitor our Net Promoter Score, which measures how likely customers are to recommend us. Our scores are some of the highest in the Bank, clearly demonstrating the level of service and support we provide our customers.

DIGITAL ENHANCEMENT

The ongoing investment we make in technology and our digital channels continued to attract new clients who appreciate the ease and security that we provide. We are committed to incorporating technology that creates value for customers and the business.

We continued our efforts to automate how clients engage with us from a transaction perspective. This has been driven by ProCash, our cash management platform. It offers businesses an efficient, convenient and safe way to manage money online and now services over 25,000 users. For example, well over half of all documentary trade is now processed online, straight-through on our ProCash platform.

In 2019, we launched a new service into the market called Trade Booster. This is an alliance with 12 global banks, led by Banco Santander, which provides our SME and mid-corporate clients with a portal through which they can link to customers and suppliers across the world.

The platform has already helped to further empower the UAE economy by making it easier and faster for companies to connect with new markets and suppliers and to create seamless supply chains.

This year we also became the first Bank in the UAE to run an end-to-end blockchain trade finance transaction worth USD 6.5 million. The deal involved moving goods for Western Red Spring Canadian Wheat from Canada to Bangladesh. ADCB's private network provided end-to-end trade visibility across the entire life cycle of the transaction with authenticated and consented digitised documents at every step.

The efficiencies stem from using a single blockchain network for all participants, instead of relying on multiple systems. As global trades intertwine and evolve, demands for a networked and collaborative model will intensify. Not only do transactions need to be seamless and safe, but clients are also increasingly looking for innovative solutions that save them time and costs.

Elsewhere, we partnered with "noqodi", a leading payment gateway and financial service provider in the UAE by emaratech, to extend their digital footprint in the payment domain. The partnership allows multiple payment channels from ADCB for businesses and individuals. In addition it includes a top-up facility for their noqodi wallet through ProCash.

PARTNERSHIPS

We enjoy strong strategic banking partnerships with Bank of America, Banco Santander and Kookmin Bank, which continue to add value to our business. These relationships add to our reach and have attracted higher flows of revenue into the UAE. This year's successful launch of Trade Booster was a direct result of this partnership.

Meanwhile, our multinational banking unit is the fastest-growing part of WBG. Driven by the two bankers seconded to us from Kookmin Bank, we have rapidly gained market share in Korea and delivered growing revenues. We are working on similar initiatives elsewhere.

FUTURE FOCUS

Next year we will continue with the momentum we have built up, leveraging our scale and capitalising on a reinvigorated SME and mid-corporate franchise. We remain committed and extremely active in developing our partnerships in the Government and GRE sectors, helping the UAE to flourish and thrive.

We will also focus on creating the right mix of business, particularly on the liabilities side and driving that through enhanced capabilities across all our digital platforms.

We expect to further grow our trade business by keeping up the pace of digitisation in cash, trade, lending, onboarding and by our commitment to best-in-class customer service. We expect virtual accounts to grow, attracting higher numbers of clients across the UAE.

How we made virtual accounts a reality for ADNOC Distribution

ADCB supports ADNOC Distribution's business in the UAE and helped them in their ambition to build state-of-the-art treasury management capabilities. ADNOC Distribution, listed on the Abu Dhabi Securities Exchange (ADX) and majority owned by ADNOC Group, is the leading fuel distributor and convenience store operator in the UAE, as well as the leading marketer and distributor of fuels to commercial, industrial and government customers throughout the UAE.

Given their desire to automate complex financial reconciliations, ADNOC Distribution was a perfect candidate for ADCB's new and unique Virtual Accounts solution. ADCB was the first bank in the UAE to launch this highly sophisticated digital capability in 2019. The service provides companies with greater control and visibility over their cash management processes, as well as improving the efficiency of their banking relationships.

Virtual accounts can be linked to a single, or multiple physical accounts and have a real IBAN allowing clients to receive payments and easily reconcile them. By reducing the need for physical accounts, the service promotes clarity and saves cost without compromising on functionality or reporting.

Using our Virtual Accounts solution, ADNOC Distribution benefits from tighter control of their cash management and better liquidity by automating and speeding up the accounts receivable reconciliation process for major corporates.

Petri Pentti, ADNOC Distribution's Chief Financial Officer, said: "Implementing Virtual Accounts was simple and immediately beneficial to our accounts receivables process, delivering efficiencies and value for our business."




أدنوك ADNOC

The Galleria extension

ADCB is acknowledged as a premier source of capital and a trusted advisor to our corporate clients. One of this year's most striking projects was the completion of The Galleria extension at Al Maryah Island, which provides Abu Dhabi with a prestigious new entertainment, dining, shopping and lifestyle destination.

The project, initially financed by ADCB in 2015, is a culmination of our close partnership with the developer. The result is a spacious and welcoming four-level expansion which includes 270 additional shops, 70 new restaurants, four urban parks, a 21-screen VOX cinema, with IMAX and 4D technology and a flagship Xtreme Zone.







WHAT WE DO

We offer both conventional and Islamic solutions spanning foreign exchange, money markets, fixed income, interest rate, currency and commodity derivatives along with investment and risk management solutions.



Treasury and Investments Group

Treasury once again demonstrated a strong performance in 2019. Prudent balance sheet management, a healthy investment book and tactical interest rate views served to protect our profitability against a backdrop of falling interest rates and helped us navigate the headwinds of a volatile global marketplace.

The impact of this year's merger did not distract us from our task. Advanced diligent planning, seamless execution and strong industry expertise meant we were able to integrate the Treasury functions of Al Hilal Bank and Union National Bank (UNB) just days after the legal merger in May. The process, which involved migrating around 30% of UNB's balance sheet, was seamless with no disruption to business as usual for any of our customers. It also allowed the Bank to achieve greater synergies.

In the capital markets, Treasury celebrated a stellar year recording the highest wholesale funding in ADCB Group's history with a total of USD 3.8 billion raised in one calendar year. This was achieved by further diversifying funding formats and enlarging the Bank's geographical coverage. The major deals completed this year were:

- Three Formosa issuances totalling USD 385 million
- First Indonesian Rupiah (IDR) bond issuance cash settled in US dollars (USD 140 million)
- A 5.5-year CHF 200 million bond
- Three five-year bond issuances totalling USD 715 million
- Loan facilities totalling USD 975 million

In 2019, Treasury improved on its Net Promoter Score for the fifth consecutive year, which is a testament to the success of our client-centric culture and our aspiration to provide the best customer experience. In a time of transformation driven mainly by the information technology revolution, digital is one of the ways we are enhancing the customer experience and making banking easier, more efficient, and safer in Treasury. This year we added capabilities to Go Trade, our FX platform, providing clients with greater functionality. The platform continued to attract a growing number of customers, with users increasing by 24% at 31 December 2019. The bulk of transactions — around 95% — are now straight-through processing, reducing time and cost for clients and the Bank.

While plans for the LIBOR transition are likely to be a significant task for banks across the spectrum, our plans are already well-advanced, and we are considering the impact not only from a Treasury perspective but also that of the balance sheet.

As we move into 2020, we will continue to adapt our strategy to navigate the headline-driven volatility from emerging global trends.

Property Management

WHAT WE DO

Property Management operates through our wholly-owned subsidiaries, Abu Dhabi Commercial Engineering Services (ADCE) and Abu Dhabi Commercial Properties (ADCP). In addition, Property Management oversees ADCB's investment properties and returns.

This year we strengthened our position as a leading player in the UAE real estate sector, both in terms of our property management capabilities and our service proposition.



ADCE

ADCE continued to deliver high-quality commercial buildings, within time and on budget, working closely with authorities to maintain and improve the highest standards of construction in Abu Dhabi.

The unique nature of the ADCE business model, coupled with ADCB's governance principles have helped foster industry best practice. ADCE's constant focus on adherence to policies and procedures help reinforce our high standards of professionalism, accountability and due diligence. This is further magnified by frequent audit efforts that reinforce our commitment to a continued level of service excellence.

ADCE remains the partner of choice for sizable and complex regional development projects. We deliver a full range of building design and construction development services, with a particular focus on efficiency. We have three core portfolios — government, private and technical services. Our projects range in value from AED 50 million to AED 1 billion.

By capitalising on the diverse fields of expertise of a skilled team of evaluators, engineers and architects, we deliver added value to our customers.

ADCP

ADCP is recognised as one of the largest property management service providers in the UAE, overseeing an extensive property portfolio. ADCP manages more than 2,100 buildings, comprising more than 57,000 residential and commercial units throughout the UAE.

Our team of more than 230 experienced real estate professionals delivers a comprehensive suite of tenant management, leasing, facilities management, and project management services.

Throughout 2019, ADCP continued to grow business lines and supported stakeholders through new initiatives. We also enhanced our partnerships with clients by broadening our digital reach through new technology platforms.

Key achievements for ADCP in 2019 included:

- **Fire & Life Safety Digital Solutions**
  ADCP contributed to Hassantuk (a strategic initiative by the UAE Ministry of Interior) to oversee the installation of over 950 Alarm Transmission Equipment (ATEs) across multiple mixed-use buildings within the Emirate of Abu Dhabi. ADCP proactively supports the Civil Defense in attending to emergency incidents.
- **Social Care and Minors Affairs Foundation (SCMAF)**
  We signed a new property services agreement with SCMAF to provide real estate services for their administered property portfolio across the Emirates. This was a significant achievement for ADCP, secured following a period of extensive tendering.
- **Abu Dhabi Distribution Company (ADDC) and Abu Dhabi Quality and Conformity Council (QCC) Collaborations — New Certification Standards**
  In coordination with ADDC, we focused on reducing inefficient power usage. As part of this initiative, our technicians attended a new pilot training and skills certification programme through the QCC.
- **Sandooq Al Watan and Emirates Foundation**
  ADCP is delighted to have retained two of the UAE's established philanthropic charitable organisations as clients; both Sandooq Al Watan and Emirates Foundation have appointed ADCP to deliver real estate management services.

WHAT WE DO

Our support, enablement and service teams are the engine room of the Bank, powering the technology and operational processes, infrastructure and expertise that provide the secure and efficient environment on which our businesses depend. In addition, Group Business Services is responsible for preparing the Bank for the future through digital transformation, operational, technological and service excellence.

Group Business Services (GBS)

2019 was a significant year for GBS, driven by growth and new opportunities at almost every level. The merger and the record-setting timeframe of the integration process was a key focus throughout the year, but did not stop us from delivering a superior customer experience.



The technology and operations teams continued to ensure the stability and security of our banking systems, while integrating the three banks. It was the powerhouse behind the processes that maintained a high level of support to all customers. Central to this was creating interoperability of the enlarged branch network and ATMs, which allowed ADCB and former UNB customers to use the combined banking network without disruption. The team also managed the seamless transition to a new credit card platform.

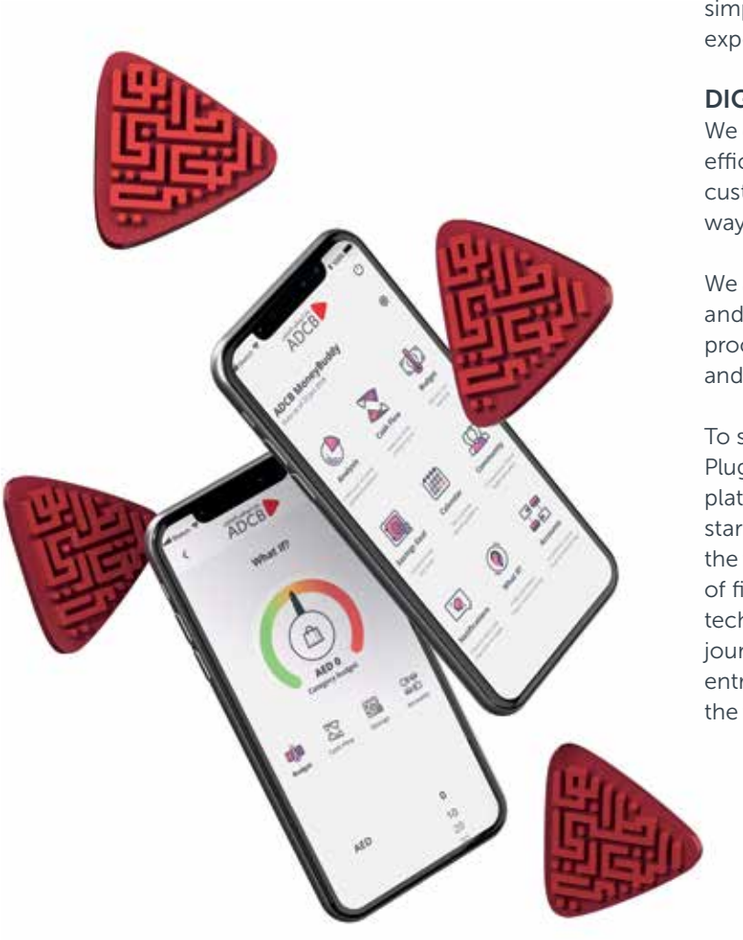
A significant portion of the GBS team was devoted to operational integration. Their role was to harmonise the multiple processes between the banks, ensure compatibility of our operations and the seamless integration of technology, while making certain that all aspects of the customer experience were considered.

Branch transition and interoperability was achieved in a 40-hour window between close of business on Thursday night and opening time on Saturday. In preparation, a quality assurance team worked diligently to test the integrity of over 30 systems in the time leading up to Customer Day One, the day on which the two banks came together under the ADCB brand.

Over the Customer Day One weekend, we decommissioned the UNB brand across all digital and physical channels to create a unified and optimised branch network of 72 ADCB branches for our customers across the UAE. This required fully rebranding and updating 24 branches and 15 different systems, training for 1,000, enabling system access for 600 and the relocation of 200 employees.

To support this and to ensure the transition was delivered smoothly, we established a central command centre of more than 40 people, plus many supporting teams, to oversee the process in real time. The command centre received and resolved around 1,000 requests in the first week, from a total of nearly 50,000 transactions during the same period.

At the same time, we continued the pace of our digital transformation programme, including the launch of new applications and the enhancement of our online platform, ensuring our customers receive a faster, simpler and better experience. Elevating the customer experience at every touchpoint remains a priority.



DIGITAL TRANSFORMATION

We continued to exploit digital for growth and efficiency. In 2019, we launched 29 new digital customer releases, which have transformed the way customers interact with the Bank.

We are committed to developing innovative products and services that not only help in streamlining processes but also focus on evolving customer needs and expectations.

To support this, we developed a relationship with Plug and Play ADGM (Abu Dhabi Global Market). The platform connects more than 10,000 technology start-ups with corporations and investors from around the world. The ecosystem showcases a diverse range of fintech propositions and new ways of adapting technology. This partnership helps us with our digital journey, and supports the economy by attracting entrepreneurial talent to the UAE from across the world.

ADCB fully participates in and embraces the vision of the leadership of the country to create a technology hub. As a founding member of Mubadala's Hub 71 and a founding member of the ADGM Digital Lab, ADCB plays a pivotal role at the centre of an expanded and innovative ecosystem.

Other major digital initiatives this year included Hayyak, our bespoke onboarding app that fully launched in February, allowing customers to open an account and receive a card in eight minutes. In just 10 months, more than one-third of new consumer banking accounts were onboarded through the app.

Leveraging our experience of building Hayyak, we also created and launched Ahlan, an onboarding app specifically designed for Al Hilal Bank, in just six weeks.

This year we established a social media presence on Instagram, Facebook, Twitter, YouTube and LinkedIn. We created an in-house Social Command Centre to monitor and respond to queries. The command centre is also responsible for sharing engaging content across the channels.

Our growing social media presence served us well during the merger and also strengthened customer acquisitions. More than 70% of customers onboarded through Hayyak were as a result of leads generated through our social media channels.

Working with the Wholesale Banking Group we were the first in the UAE to launch a Virtual Accounts service, which helps corporates to manage and reconcile incoming payments from multiple sources.

Meanwhile, we upgraded our mobile internet banking platform and added capability to our SME financing and Trade Workflow applications, making it easier for our customers to transact and access funding.

We are making more use of Robotic Process Automation (RPA) across the Bank. Using software with artificial intelligence machine learning capabilities, we now process up to 13,000 transactions every day, saving us around 28,000 hours each year. As a result, we significantly increased our efficiency while reducing costs.

LISTENING TO OUR CUSTOMERS

Every year we engage with hundreds of customers through face-to-face qualitative focus group sessions. This allows us to understand more about their experience in dealing with ADCB's products and services. In line with our digital journey, we conduct user testing and needs assessment studies for digital assets across all stages of development. We also use other methodologies to collect regular feedback on each and every touchpoint of the Bank by calling the customers and by conducting online surveys.

Insights from our customers provide a comprehensive understanding of our strengths and weaknesses and help us to improve the experience we give. All customer feedback is tracked and reported on a weekly basis.

Our Net Promoter Score, which measures the willingness of customers to recommend our brand, products or services to others, continued to rise across the Bank and has increased by 26 NPS points from 2014. This industry-leading figure is a strong demonstration of our leadership in the banking sector when it comes to serving our customers.

FUTURE READY

One of the key measures of our success is the ability and speed with which we deliver our digital transformation agenda. In 2020, we will continue the pace we have set.

Our goal is not just to provide a better customer experience, but also to enable and empower our teams internally to be able to do their job better on systems that are safer, faster and more efficient. The teams adopt an agile way of working with squads co-located in our Digital Studio.

Our focus on providing banking services through mobile will ensure customers are able to open an account, apply for a variety of loans, and resolve any service requests on their device of choice.

We will also scale up our data and analytics capabilities to provide a hyper-personalised experience for our customers. We will continue to develop our partnerships with technology start-ups in the market that are offering finance alongside banks. We will also increase our involvement in the Automated Programming Interface (API) space, and expand our product offering and ecosystem to offer more for our customers.

As we keep pace with emerging technology and new trends, we continue to invest in our people to ensure we can attract, develop and retain the best talent in the industry and better support our customers.

We continuously explore and exploit new ways to do more with less. Whether it is using the latest technology, optimising a process, retraining our people, or thinking differently about a problem, GBS will continue to remain cost-conscious and productivity focused.

Siddiqa Abbas

1974–2020



Group Chief Operations Officer

It is with great sadness that we report our colleague Siddiqa Abbas passed away in February 2020. She was an influential presence throughout the 15 years she worked at ADCB.

She was the first female member of the Bank's Management Executive Committee and made a significant contribution to ADCB's culture and values. She was unwavering in her support for the development and success of UAE Nationals in the business and a strong advocate for change.

Appointed as Group Chief Operations Officer in 2018, she was instrumental in leading our digital transformation, helping to improve the efficiency of the Bank and consistently elevating the level of customer service.

Siddiqa will be remembered for her engaging personality, as well as her kindness, dedication, commitment, and tireless work that benefitted so many.

We pray for the almighty God to have mercy on her soul and grant her eternal rest.

#CoLab inspires winning ideas

Capitalising on the digital passion and collaboration from colleagues across the Bank, GBS partnered with US tech company Plug and Play to host the first #CoLab hackathon in July 2019. The event took place at the Abu Dhabi Global Market Academy.

Modelled on the start-up hackathon concept where teams work together on timed sprints to create new products and services, employees from across ADCB competed to win a one-week immersive trip to Silicon Valley.

The objective was to develop innovative products using API technology. Colleagues from Consumer Banking Group and Wholesale Banking Group worked together in two squads of four members each.

The teams came up with more than 20 innovative ideas in just three weeks. Each squad picked one idea and then fully explored the market opportunity, the feasibility, the commercial viability, before pitching their products to a panel of judges, including Patrick Poulin, CEO of API Fortress, based in New York.

During the visit to Silicon Valley, the team visited a range of companies and shared entrepreneurship classes with start-ups from across the globe. They met some of the fast-growing fintechs which are changing the way banks engage with their customers.




#CoLab
#CoLab
بنك أبوظبي التجا
ADCB

WHAT WE DO

Human Resources plays an integral role in driving ADCB's strategy. By delivering a high-end employee value proposition, we strive to build a distinctive competitive advantage to our organisation through our people and our culture.

As part of this, and building on our core values, we are committed to promoting Emiratisation throughout the organisation, encouraging UAE Nationals to thrive in the Bank.

Human Resources (HR)

In 2019, the HR team was focused on serving the needs of the business on two fronts; integration and maintaining business as usual. We played an integral role in promoting the Bank's culture and values while enabling our employees to work in harmony as part of one entity.

We capitalised on our high-performance culture to drive change during the merger and integration, while ensuring there was no disruption to the outstanding service our customers expect from the Bank. To achieve this, employees were given additional support with dedicated points of contact and bespoke training where required.



COLLABORATIVE CULTURE

We have an experienced and robust HR team whose skills enabled us to manage the professional and personal requirements of our employees. By remaining true to our strategy and harnessing the power of our values, we helped to ensure the success of the integration project.

We worked closely with other teams from across the business to ensure they were fully supported and aligned.

In the five months from the announcement of the merger to Customer Day One[1], we:

- Reviewed, benchmarked and harmonised job titles
- Benchmarked and aligned salaries
- Updated and aligned policies
- Revised contracts

Throughout the integration, the Bank's organisational health has remained one of its key strengths. A comprehensive survey of the combined businesses was carried out to assess corporate values, practices and culture. The results showed a positive organisational health compared to global benchmarks. More than 80% of employees took part in the survey, which revealed that both objective setting and appraisals were clear and robust.

To build on these encouraging results, we are developing a set of initiatives to further enhance organisational and cultural health. Our aim is to implement a holistic approach, starting by reinforcing our corporate values and behaviours. We will continue to create a tailored learning approach for each business line, embedding new digital skills and competencies needed to achieve our goals.

Investing in the training and development of our employees will remain a key focus for the Bank.

EMPOWERING EMIRATISATION

Increasing the participation of UAE Nationals remains a priority and HR has been proactive in supporting the Abu Dhabi Government's strategy and economic vision in this ambition. We employ 1,479 UAE Nationals across the Group and we are proud that almost 80% of our Emirati workforce are women.

Al Hilal Bank's Emiratisation rate stood at 48%, the highest among all UAE banks.

Recognising the value of our Emirati employees, we continuously invest in initiatives to promote growth and encourage development. Across our robust, fully customised Emirati Academy, we have successfully supported UAE Nationals in a variety of training programmes.

In addition, we also offer specialist schemes for Emirati graduates, and continue to partner with leading international and regional learning centres to create different programmes to deliver high-end learning experiences.

As a result of these measures, we have increased financial dexterity among UAE Nationals, focusing on boosting competencies and confidence.

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DIFFERENT NATIONALITIES

1 Customer Day One involved the combination of the entire ADCB and UNB branch and ATM networks, as well as the roll-out of the ADCB brand across all physical and digital channels.

To further develop young Emirati talent for a future career in the financial services industry, we have employed UAE Nationals as part of the 'Train For Work' initiative. This important programme is a collaboration with the Abu Dhabi Human Resources Authority, Ministry of Human Resources & Emiratisation and Mubadala.

Through our end-to-end UAE National talent journey, we are committed to supporting talented Emiratis with key initiatives that encourage retention, sourcing and development.

TAMOOHA GROWTH

Tamooha, our award-winning inclusivity initiative for Emirati women, celebrated its fifth anniversary this year. The centre continues to grow, attracting more than 350 Emirati women, who view ADCB as an employer of choice. The programme facilitates job opportunities and career development, providing an appropriate environment that suits social norms, family responsibilities and overcomes regional barriers such as geographical remoteness.

DRIVING DIVERSITY

As workforce demographics shift, workplace diversity has become a business necessity. We are proud to have 82 nationalities in ADCB. This helps to enrich our culture and to progress working in an open-minded environment. The Bank scores highly in gender diversity as well, with women comprising 39% of the Group's employees with 31% of middle and senior roles held by women.

Focusing on diversity helps us to attract, develop and retain top performers and create a robust pipeline for future talent.

LEARNING AND DEVELOPMENT

Our success, particularly in providing our customers with an outstanding banking experience, is enabled by training. Throughout the year, we delivered training to employees across a diverse range of important topics. This helped them to develop both personally and professionally.

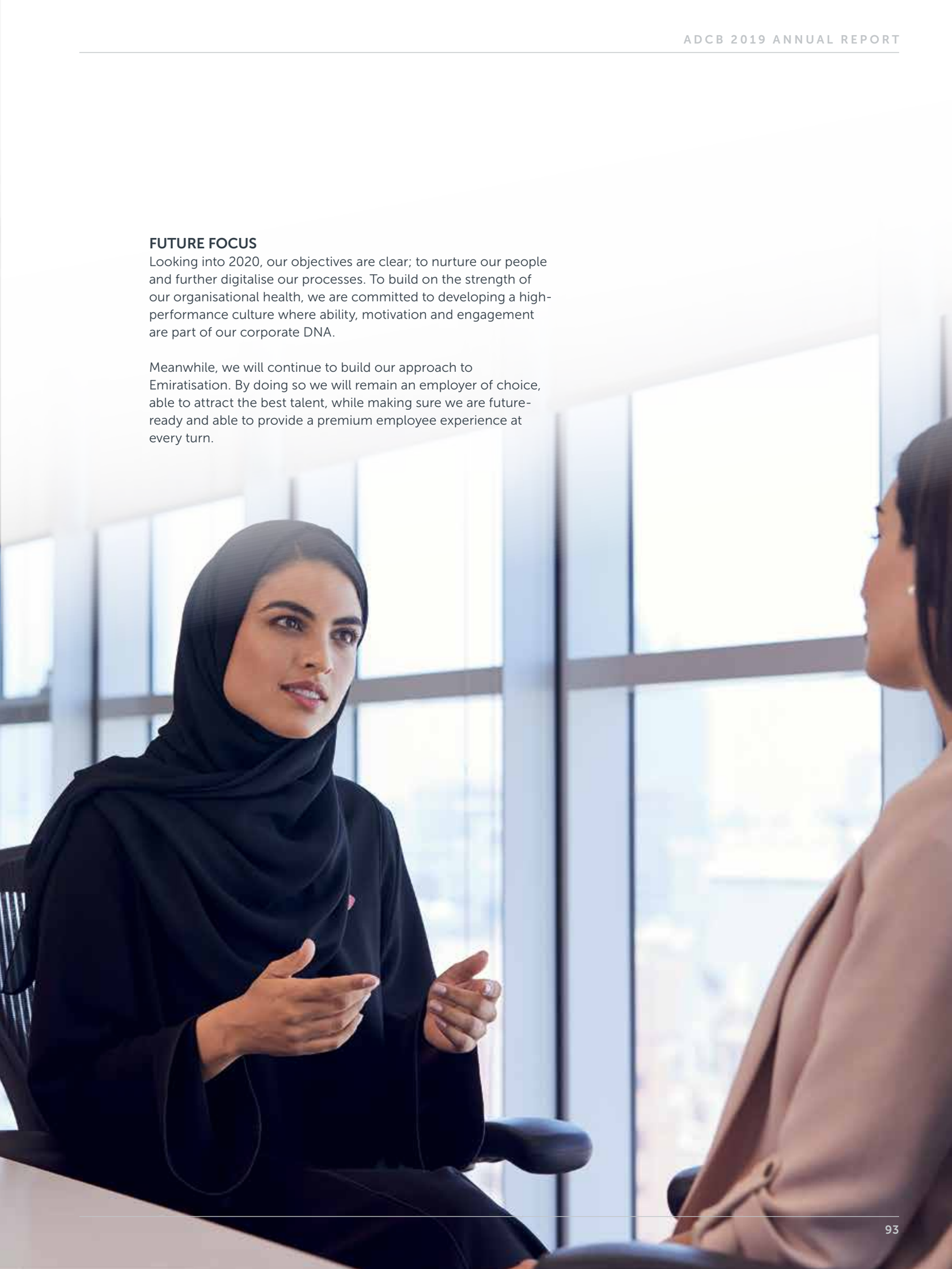
In 2019, we delivered over 200,000 training hours within more than 500 classroom courses and e-learning modules. This covered both technical and soft skills to build employee capability to sustain the business and support career aspirations.

To ensure the Bank is well-prepared for the future, we also created different learning opportunities and experiences, matching the trends in the market. These included blockchain training and support for our ongoing digital transformation, agile leadership and fintech partnerships. In 2020 we will continue to implement the best solutions, through designing new experiential learning programmes.

FUTURE FOCUS

Looking into 2020, our objectives are clear; to nurture our people and further digitalise our processes. To build on the strength of our organisational health, we are committed to developing a high-performance culture where ability, motivation and engagement are part of our corporate DNA.

Meanwhile, we will continue to build our approach to Emiratisation. By doing so we will remain an employer of choice, able to attract the best talent, while making sure we are future-ready and able to provide a premium employee experience at every turn.



Sustainability

ADCB Group is committed to managing the environmental and social impacts of its operations and promoting sustainable development in the UAE.

As one of the major financial institutions in the UAE, we have a responsibility to make a positive contribution to the national agenda. We believe it is important to promote sustainability through effective Economic, Social and Governance (ESG) management. That means integrating ESG considerations into the way we do business.

We believe that embedding sustainability into our operating model will enable us to generate greater long-term value and address the evolving needs of all our stakeholders.

The Bank is aligned with the UAE Vision 2021, which sets out the key themes for the social and economic development of the country and paves the way for a more diversified and knowledge-based economy. We support the Plan Abu Dhabi 2030, to create a more sustainable city. We also support the UAE government in its contribution to the United Nations Sustainable Development Goals (SDGs).

The information in this section of our Annual Report provides a detailed snapshot of our current status, along with a summary of our achievements over recent years.

To enable comparability with previous years, the data included in this section of the report relates to ADCB, and excludes data from the former Union National Bank and Al Hilal Bank, unless specified.





Stakeholder engagement

Our key stakeholders are those that influence, or are influenced by, our daily business activities, which is why it is critical to ensure we have an ongoing dialogue with them to effectively understand and respond to their needs. We have two types of stakeholders: internal stakeholders who are part of ADCB, and external stakeholders, made up of all relevant groups outside our organisation. In the table below we have identified six principal stakeholder groups.

OUR STAKEHOLDERS	HOW WE ENGAGE	THEMES
UAE GOVERNMENT AND REGULATORS	• Face-to-face meetings • Official communication • Public reporting • Annual Report	• Compliance with legal and regulatory requirements • Emiratisation • Consumer protection • Support for the UAE economy • Support for strategic development goals • Sustainability
CUSTOMERS	• Branch network • Mobile and internet banking • ADCB.com • Social media • Call centres • Relationship managers • Net Promoter Score • Customer Care	• Customer experience and satisfaction • Usability and accessibility of digital products • Financial inclusion • Innovative products • Information security and data protection • Clear communication • Competitive rates and rewards
EMPLOYEES	• Regular internal communications • Learning and Development programmes • Performance appraisals • Coaching • Employee Engagement Survey • Awards • Town Hall meetings • Face-to-face management meetings • Training	• Emiratisation • Diversity and inclusion • Reward and recognition • Clear objectives and communication • Personal and professional development • Training opportunities • Career opportunities • Workplace culture and values
SHAREHOLDERS AND INVESTORS	• AGM • Face-to-face meetings • Conference calls • Roadshows • Annual Reports • Quarterly financial reports • Press releases • Investor Relations website	• Profitability, growth and return on investment • Sustainable value creation • Competitiveness • Strong corporate governance framework and risk management • Strong leadership • Clear strategy
SUPPLIERS	• Bids and tenders • Procurement • Online tendering platform • Face-to-face meetings • Vendor screening process	• Supply chain management • Clear communication • Timely payments • Fair and transparent processes
COMMUNITY	• CSR activities • Events • Partnerships • Social media • ADCB.com • Public reports	• Emiratisation • Financial education and inclusion • Employment • Local sponsorship and outreach

Working with our stakeholders

THE UAE GOVERNMENT AND REGULATORS

The UAE government is committed to a sustainable future for all and is a signatory to the United Nations SDGs and the Paris Agreement.

As a Bank, we are well-positioned to support the UAE in achieving a number of the 17 UN SDG goals. The list below highlights those where we can potentially contribute the most.

SUSTAINABLE DEVELOPMENT GOAL	OUR CONTRIBUTION
 SDG 4 - QUALITY EDUCATION	• We recognise the importance of talent development and we continuously build the future skills of our employees to support the growth of our business. We invest in personal and professional training that supports the business and fosters our employees' development aspirations. In addition, we create a variety of learning opportunities and experiences, that reflect the latest developments in the market. • Beyond our organisation, we invest in education for the local youth through our community programmes.
 SDG 5 - GENDER EQUALITY	• We have placed gender equality high on our agenda, across all levels of the organisation. In the past year, the percentage of women has remained stable, comprising 39% of our total employees.
 SDG 8 - DECENT WORK AND ECONOMIC GROWTH	• By creating new jobs opportunities, training young people, investing in Emirati talent, and protecting our employees' rights and safety, we contribute to sustaining economic growth. • Our economic performance, growing customer base, and customer satisfaction have a direct and indirect impact on the industry, contributing to overall growth. We also ensure that we work with local and environmentally conscious suppliers where possible.
 SDG 10 - REDUCING INEQUALITIES	• Our employment policies are designed to promote inclusion and equality within the company. We also have relevant grievance mechanisms in place for employees to report cases of discrimination or violations of conduct and appropriate actions to be taken.
 SDG 17 - PARTNERSHIPS FOR THE GOALS	• Through our community programmes we work together with local organisations such as Emirates Foundation, WWF (Emirates Nature), Emirates Red Crescent, the Sheikh Khalifa Bin Zayed Foundation, and the Al Jalila Foundation for Breast Cancer.

COMMITTED TO EMIRATISATION[1]

Emiratisation is an integral part of our talent management strategy at the Bank. By striving to attract, develop, retain and promote UAE Nationals we are helping to empower the business and to support the development of our nation. As a result of our strategy we once again exceeded the Emiratisation targets set by the Central Bank in 2019.

Our approach has also helped to empower Emirati women in the Banking industry. We are proud that ADCB scores highly in gender diversity and that almost 80% of our Emirati workforce are women. A strong illustration of our approach is our award-winning Tamooha programme.

Tamooha, which celebrated its fifth anniversary in 2019, helps to facilitate job opportunities and career development for Emirati women. It provides an appropriate environment that suits social norms, family responsibilities and overcomes regional barriers, such as geographical remoteness. Since it began, more than 350 women have benefitted from this innovative programme.

To empower Emirati women at all levels, we launched a new training programme for our receptionists, to support them in achieving their career aspirations.

Across our diverse Emirati Academy customised curriculum (Mahara, Specialised, Management and Leadership Track), we have successfully developed more than 1,100 UAE National employees.

PROGRAMME	DESCRIPTION
MAHARA CERTIFIED PROGRAMME	• This programme is designed to increase the financial dexterity of our new Emirati employees, focusing on enhancing their competencies and confidence as individual and team contributors. This year we supported more than 140 UAE Nationals who received a tailored learning programme.
SPECIALISED CERTIFIED PROGRAMME	• Helping new Emirati graduates with their career aspirations is the aim of this programme. • By creating different learning opportunities and experiences tailored to individual needs, we enrich their professional identity and behaviours to help their career progression through the Bank. Now in its third year, the programme continues to attract a growing number of graduates.
MANAGEMENT AND LEADERSHIP TRACK	• We continue to invest in competency-based solutions, offering customised management and leadership development journeys. These solutions have enabled promising UAE National employees to make a valuable contribution to the organisation through developing core managerial and leadership competencies, whilst also achieving personal and professional fulfillment and growth.

CUSTOMERS

Our vision is to be the number-one bank of choice in the UAE and to support this ambition our strategy is to ensure our customers are always at the centre of our decision-making. Providing an exceptional and outstanding customer experience is what drives our business.

We are proud to have consistently improved our Net Promoter Score, indicating a high level of loyalty from our customers. In 2019, we received significantly fewer complaints and have continued to resolve them in less than three days.

CUSTOMER EXPERIENCE	2017	2018	2019
Total customer complaints resolved	100%	100%	100%
% of complaints resolved within 3 days	94%	92%	92%

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 clients' personal information. Data privacy, on the other hand, is focused on the ethical handling of customers' personal data. We have a dedicated department that handles data security, ensuring sufficient safeguards and security controls are always in place (see page 46 of the Risk Management section).

In order to further underline the importance of data privacy within ADCB, both from a regulatory perspective and customer expectations, we have established a dedicated Data Privacy Office. The Data Privacy Office is also responsible for making sure that ADCB is well-positioned for any upcoming local legislation or regulatory requirements as well as closely monitoring

1 Data for ADCB Group—including former UNB and Al Hilal Bank employees.

international best-practice. This includes the European Data Privacy Regulation GDPR (General Data Protection Regulation) which came into force in 2018.

Our robust stance on this matter represents another opportunity to bring added value to our customers. In 2019, we were able to detect and prevent each and all attempts to breach customer privacy.

ACCESS TO DIGITAL PRODUCTS	2017	2018	2019
Mobile banking subscribers	357,677	436,145	531,703
ADCB personal internet banking subscribers (retail)	484,116	527,258	538,284

The number of customers using our services through digital products, such as our mobile banking app and internet banking, has steadily increased in 2019. To support this growth, it is important that our products and services are accessible and user-friendly for all. Our financial inclusion efforts are focused on financial literacy, affordable products, and services for all individuals and companies.

EMPLOYEES

We recognise the value of diversity and we are proud that our workforce is made up of 82 nationalities. This helps to enrich our culture, promoting an inclusive working environment.

ADCB's culture was rated as exemplary by more than 80% of employees in an organisational health survey conducted in 2019. The results placed ADCB in the top decile of companies in the world and demonstrated that staff had a clear understanding of the Bank's strategy and goals. It also showed a strong level of employee engagement.

Building on this, we will continue to focus on nurturing our organisational and cultural health by investing in our people through training and development. We have created a tailored learning approach for each business line, embedding new digital skills and competencies needed to achieve organisational goals and a high-performance culture.

Through our Ambition University (AU) we support the business and the organisational culture. The AU aligns and integrates employees' development with the Group's strategic initiatives both at an organisational and at a business level. The AU undertakes business-driven training that adds value to the Group's business, shareholders, and customers. This year, through our teaching model and blended-learning methodology, we delivered more than 200,000 training hours, within more than 500 classroom courses and e-learning modules.

Investment in people remains a key focus and their performance is an important factor in their development. Employee performance is underpinned through comprehensive reviews twice a year, with a completion rate of 100%.

Looking ahead, we will continue to invest in our employees, creating impactful learning and development opportunities that are aligned with the Bank's strategy.

WORKFORCE AND DIVERSITY	2017	2018	2019[1]
% female employees	39%	39%	39%
% youth employed (18-30 years of age)	22%	21%	19%
Countries of origin (diversity by nationality)	79	82	82
Employees with special needs	6	5	6

CONDUCTING BUSINESS RESPONSIBLY	2017	2018	2019
Total training (hours) for direct employees on policies and procedures concerning anti-corruption	4,045	5,980	6,376

We have a comprehensive Code of Conduct in place that includes our mission, core values, and service commitments. The Code of Conduct is part of mandatory training. All employees have to acknowledge the Code of Conduct on a yearly basis to ensure they carry out their work in line with our standards. In addition, we have several mechanisms in place to ensure that we are compliant with all required regulations and best-practice guidelines, such as our whistle-blowing policy, anti-bribery and corruption policies and training.

1 Data for ADCB Group—including former UNB and Al Hilal Bank employees.

SHAREHOLDERS AND INVESTORS

We have an open and ongoing dialogue with our investors and the investment community. We do this in a number of ways, including through our quarterly and annual reports as well as through our website. We regularly meet shareholders and investors to provide updates on our activities, including our financial performance and strategy.

For an overview of our financial performance, please see the Financial Overview on page 62. To read about our approach to governance, please turn to the Governance section of this report on page 104.

SUPPLIERS

SUPPLY CHAIN MANAGEMENT	2017	2018	2019
% spending on local suppliers	98%	97%	92%
% suppliers screened for environmental criteria	91%	91%	91%

We support the local economy with our responsible procurement practices, which are aimed at selecting local suppliers where possible. By integrating ESG criteria into our vendor screening process and through a partnership with local suppliers, we help to promote sustainable practices throughout our supply chain. We use an online tendering platform to ensure a transparent and auditable process.

ENVIRONMENTAL RESPONSIBILITY	2017	2018	2019
Total paper consumption (tonnes)	197	185	183
Total paper recycled (tonnes)	61	72	96
Total paper saved by e-statements (for retail in tonnes)	13	14	15
Total water consumption (m3)	90,707	103,577	90,839
Total electricity consumption (MwH)	43,627	42,894	44,388

PLANET

We aim to minimise our impact on the environment as much as possible. For example, we reduced our paper consumption by moving to digital forms of communication, such as our e-statements and our mobile apps. Currently, we are implementing more innovative solutions, such as moving documents and contracts to the cloud. In 2019, we introduced an artificial intelligence-based solution to scan and read contracts. Since its implementation, we have scanned more than 2,500 contracts, removing the need to print them.

We are always investigating other ways of reducing our footprint. Our offices are supplied with energy-saving LED lights and we replaced old chiller equipment with cleaner alternatives.

COMMUNITY	2017	2018	2019
Direct donations & sponsorships (AED)	14,790,818	7,003,327	9,079,674
Donations Islamic Banking Group (AED)	3,139,765	1,492,138	1,824,508
Total direct community distributions (AED)	17,930,583	8,495,465	10,904,182
Indirect community distribution (ATM donations) (AED)	888,362	704,785	733,609
Indirect community distribution (internet donations) (AED)	4,887,819	5,022,754	3,080,233
Total direct & indirect community investments (AED)	23,706,764	14,223,004	14,718,024

COMMUNITY

We continued to invest in the UAE through strategic partnerships, programmes, and sponsorships. As a major financial institution, we try to select initiatives to which we can make a meaningful contribution, both from a financial perspective and from our unique position in the community.

Our outreach aims to empower the UAE youth and the community. We do this through education and increased financial knowledge, partnerships with local (charitable) organisations and sponsorship of community events.

UAE youth empowerment

We play an important role in preparing young Emiratis for the future by providing additional educational opportunities and helping to raise financial awareness. One of the ways we do this is through our support for the Sandooq al Watan programme, which helps young Emiratis to develop useful skills.

We also continued our partnership with the local foundations to create the financial literacy programme MoneySense, targeted at the UAE youth. The MoneySense financial responsibility programme is an example of how we can use our reach and knowledge as a large financial institution to help and support UAE Nationals with managing their finances. MoneySense is the first financial literacy programme of its kind in the UAE, covering topics such as budgeting, setting and reaching savings goals, responsible borrowing, and planning for the future.

Education

Education and innovation are important pillars of our community programme. In August 2019, we announced a partnership with Plug and Play and ADGM (Abu Dhabi Global Market) to support local technology start-ups in the region. This partnership will help us to enhance our digital capabilities and explore new and innovative services for our clients.

Partnership for UAE

We have a long history of partnership with charitable organisations in the UAE. These include Emirates Red Crescent, the Sheikh Khalifa Bin Zayed Foundation, Emirates Nature—WWF and People with Determination (PWD) centres, all of which have played a significant role in supporting society in the UAE. In addition to our direct donations, we also facilitate donations of our customers through ATM transactions, online banking and the Zakat Fund.

We have also supported several events to raise money and awareness for good causes, such as the Pink Run for Breast Cancer awareness in October 2019. This event is now in its seventh year and provided a substantial contribution to the Al Jalila Foundation for Breast Cancer. We also continued to support healthy living throughout the UAE with our association with ADCB Bikeshare, in partnership with Cyacle.

2019 Awards

"Best Trade Finance Provider in the UAE"

GLOBAL FINANCE

"Best Service: Overall, Business Functions, Financial Facilities, Personnel, Service, Tech Provisions in the UAE"

EUROMONEY CASH MANAGEMENT SURVEY

"Best Trade Finance Service in the UAE"

EUROMONEY

"Best Trade Finance Services in the UAE"

GLOBAL FINANCE'S 2019 WORLD'S BEST DIGITAL BANK AWARDS

"Best Service Overall and Market Leader Overall in the UAE"

EUROMONEY CASH MANAGEMENT SURVEY

"Best Online Portal Services in the UAE"

GLOBAL FINANCE'S 2019 WORLD'S BEST DIGITAL BANK AWARDS

"Trade Finance Market Leader in the UAE"

EUROMONEY

"UAE Domestic Trade Finance Bank of the Year"

ASIAN BANKING AND FINANCE MAGAZINE

"Best Islamic Banking Window Award 2019"

ISLAMIC RETAIL BANKING AWARDS BY CAMBRIDGE IFA, UK

"The Middle East's Best Bank for SMEs"

EUROMONEY AWARDS FOR EXCELLENCE

"The Most Recruiting Bank Award in the UAE"

MINISTRY OF HUMAN RESOURCES & EMIRATISATION

"The Most Vacancy Offering Bank Award in the UAE"

MINISTRY OF HUMAN RESOURCES & EMIRATISATION

GOVERNANCE




بنك أبوظبي التجاري
ADCB

CHAIRMAN'S LETTER

I am pleased to present the Corporate Governance Report for 2019, which demonstrates our commitment to maintaining a governance framework of the highest international standard.

Strong and effective governance is vital to the long-term success of ADCB and to our goal of becoming the bank of choice in the UAE. It protects our customers, the Bank and our reputation and safeguards the interests of our shareholders.



EISSA MOHAMED ALSUWAIDI

CHAIRMAN

At the start of 2019, your Board had four standing Committees, which covered: Audit & Compliance, Corporate Governance, Risk & Credit, and Nomination, Compensation & Human Resources. During the year, the Nomination, Compensation & HR Committee merged with the Corporate Governance Committee to form the Nomination, Compensation, HR and Governance Committee (NCHRG). During 2019, the Board met 8 times and the Board Committees met 46 times.

The Committees made positive progress during 2019, maintaining high standards of discussion and continuing to enhance our governance framework.

Following a gap analysis, the NCHRG Committee was pleased to note that the Bank had already implemented most of the requirements of the new UAECB Governance Regulations into its corporate governance framework.

The NCHRG Committee also reviewed ADCB's remuneration framework alongside those of Union National Bank (UNB) and Al Hilal Bank (AHB) to harmonise and ensure best-practice across the Bank. Finally, it continued to prioritise UAE National development, focusing on the recruitment, retention and training of talented UAE National staff.

The Audit & Compliance Committee considered purchase price adjustments recommended by management following the merger with UNB and the subsequent acquisition of AHB. It also reviewed and discussed the Bank's IFRS 9 governance process, models, and implications for the Bank's financial statements and ensured our compliance with UAE Central Bank regulations.

The Risk & Credit Committee also looked at the implications of the Bank's ongoing application of IFRS 9. In particular, it reviewed the Bank's expected credit loss (ECL) levels and reporting process and staging of its most significant accounts before and after the merger to ensure adherence to the Bank's IFRS 9 models. It also continued to regularly review the risks associated with the Bank's various product portfolios, and to ensure that the Bank's capital and liquidity positions are suitably stress tested.

In the pages which follow, you will find more details of the work carried out by your Board in 2019. As well as outlining how we continued to strengthen corporate governance in 2019, the report illustrates the most significant issues with which we have dealt, and some of the principal activities that have engaged us. It also includes the reports from each of the Board's principal Committees.

REGULATION

The Bank welcomed the release of the UAE Central Bank's new regulations on corporate governance in 2019. The regulations will strengthen risk and governance across the banking sector in the UAE. They justify our long-term commitment to governance, as a result of which ADCB has consistently led the way in adopting and embedding international standards and best practice in governance.

BOARD EFFECTIVENESS

We have a reliable and effective Board. It is our collective responsibility to ensure the long-term success of ADCB and that we continue to generate sustainable value and solid returns for our shareholders.

As I mentioned in my introduction to this Annual Report on page 20, following our merger, we have welcomed a number of new members to the Board this year as others have stepped down. This has provided us with fresh perspectives and bolstered our objectivity. I am confident that we have the right mix of skills, knowledge and experience necessary to successfully deliver our objectives in 2020 and beyond.

Our focus on enhancing Board effectiveness is continuous, and we are grateful for the valuable support and advice of Sir Gerry Grimstone, Board Adviser. Sir Gerry's significant international governance expertise and experience serve to strengthen the Board.

Meanwhile, we remain dedicated to promoting greater clarity and transparency in our communications with management and to ensuring that communication between the Board and management is as effective as possible.

STAKEHOLDER ENGAGEMENT

By understanding the issues that most concern our internal and external stakeholders, we are better able to make informed decisions that help to address these subjects. Listening to what is being said by our investors, customers, regulators, employees, and shareholders provides valuable insight, and that is why we take every opportunity to engage with our stakeholders.

Our AGM is particularly important in this regard and allows us to meet many of our investors face-to-face. We also engage with them in a variety of other ways, which you can read about in more detail on page 96.

THANK YOU

Finally, I want to take this opportunity to thank all my colleagues on the Board for their support in this landmark year. I am confident that the strength of our commitment to corporate governance, our well-established framework, and our proven culture of accountability provide a robust foundation upon which we will continue to build.

EISSA MOHAMED ALSUWAIDI

CHAIRMAN



Board of Directors



Eissa Mohamed Alsuwaidi

CHAIRMAN
INDEPENDENT*, NON-EXECUTIVE DIRECTOR

Eissa Mohamed Alsuwaidi was appointed by the Abu Dhabi Investment Council (ADIC) to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. He has more than 20 years of experience in asset management and banking.

Bachelor of Economics (Northeastern University, USA)

EXTERNAL APPOINTMENTS:

- Chief Executive Officer — Abu Dhabi Investment Council
- Board Member — Emirates Investment Authority



Mohamed Dhaen Mahasoon Alhamli

VICE CHAIRMAN
INDEPENDENT*, NON-EXECUTIVE DIRECTOR

Mohamed Dhaen Mahasoon Alhamli joined the ADCB Board of Directors in 2019. He is the former Minister of Energy for UAE (2004–2013) and is currently Chairman of UNB Egypt Board of Directors.

Advanced Management Program (Harvard Business School, USA)
Member of the Association of Chartered Accountants
Higher National Diploma in Business Studies (Portsmouth University, UK)

EXTERNAL APPOINTMENTS:

Previously held the following positions:

- Member, Supreme Petroleum Council Advisory Committee (SPC)
- Vice Chairman, Abu Dhabi National Chemicals Company (ChemaWeyaat)
- Board Member, Cosmo Oil, Japan
- Chairman, Internal Audit Committee, Abu Dhabi Investment Council
- Chairman, Internal Audit Committee, Abu Dhabi National Oil Company



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 of the Private Office of Sheikh Suroor bin Mohammaed Al Nahyan
- Board Member of Bank Al Falah Limited
- Chairman of Makhazen Investment Company
- Board Member of ADNH
- Non-Executive Member of EFG Hermes Board



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:

Board Member of Abu Dhabi National Hotels (ADNH)

*As assessed per Central Bank regulations

Board of Directors (continued)



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
- Chairman — Emirates Strategic Investment Co. (ESIC)
- Group Chief Executive Officer — Das Holding



Aysha Al Hallami

INDEPENDENT*, NON-EXECUTIVE DIRECTOR

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, where she has served for more than nine years.

Chartered Financial Analyst (CFA Institute, UAS)

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

MSc Finance & Banking (British University in Dubai in association with Cass Business School, City University, UK)

BSc Business Sciences: major in Finance (Zayed University, UAE)



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 Business Administration (INSEAD)

Bachelor of Electrical Engineering (American University of Beirut)

EXTERNAL APPOINTMENTS:

- Board Member of Cleveland Clinic Abu Dhabi
- Board Member of Global Foundries
- Board Member of Waha Capital
- Chairman of Mubadala Infrastructure Partners
- Board Member of Bank Audi SAL in Lebanon



Hussain Jasim Naser Alnowais

INDEPENDENT*, NON-EXECUTIVE DIRECTOR

Hussain Jasim Naser Alnowais joined the ADCB Board of Directors in 2019. He is the founding member and Chairman of AlNowais Investments.

BSc Business Finance (Lewis & Clark College, USA)

EXTERNAL APPOINTMENTS:

- Chairman of AMEA Power
- Chairman of Sheikh Khalifa Fund for Enterprise Development
- Board member of Rotana Hotels and Real Estate Investment
- Founder and Board Member of Sandooq AlWatan

*As assessed per Central Bank regulations

Board of Directors (continued)



Saeed Mohamed Hamad Almazrouei

INDEPENDENT*, NON-EXECUTIVE DIRECTOR

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 PJSC.

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 of Abu Dhabi Future Energy (Masdar)
- Board Member of Abu Dhabi Retirement Pension & Benefits Fund
- Board Member of Modon Properties
- Board Member of Mubadala Medical Company
- Board Member of CEPSA Holding LLC



Mohamed Hamad Ghanem Almehairi

INDEPENDENT*, NON-EXECUTIVE DIRECTOR

Mohamed Hamad Ghanem Almehairi joined the ADCB Board of Directors in 2019. He is Chief Executive Officer, Aabar Investments PJSC.

BSc Science & Business Administration, Finance (Suffolk University, USA)

EXTERNAL APPOINTMENTS:

- Board Member and Chief Executive Officer of Aabar Investments PJSC
- Board Member and Vice Chairman of Arabtec Holding
- Board Member of UniCredit SpA in Italy
- Executive Director — Financial Institutions of Mubadala Investment Company



Sir Gerry Grimstone

BOARD ADVISER

ADCB appointed Sir Gerry Grimstone as Adviser to its Board of Directors in January 2013. He brings significant international expertise and experience in investment banking and the financial services industry and has served on the boards of several high-profile public- and private-sector companies, including as Chairman of Barclays Bank.

Sir Gerry was previously Chairman of TheCityUK, a senior investment banker at Schroders, and an official in the UK's HM Treasury. He was responsible for privatisation and policy for state-owned enterprises and helped oversee HM Treasury's Operational Efficiency Programme. He has also served as one of the UK's business ambassadors.

EXTERNAL APPOINTMENTS:

- Lead Non-Executive Director — UK Ministry of Defence
- Independent Non-Executive — Deloitte North West Europe
- Board Member Investcorp
- Senior Adviser Fenchurch Advisory Partners
- Senior Adviser Natixis

*As assessed per Central Bank regulations

Executive Management



Ala'a Eraiqat

GROUP CHIEF EXECUTIVE OFFICER AND MEMBER OF THE BOARD, EXECUTIVE DIRECTOR

Ala'a Eraiqat joined ADCB in January 2004 and held various senior posts before assuming the role of Chief Executive Officer in 2009, as well as becoming a member of ADCB's Board of Directors. He previously held senior positions at Citibank and Standard Chartered Bank, amongst others.

His responsibilities extend to being Chairman of Al Hilal Bank and chairing the following subsidiaries and committees of ADCB, amongst others; Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, the ADCB Management Executive Committee and the ADCB Management Risk & Credit Committee.

He also serves on the board of Abu Dhabi National Hotels PJSC.



Deepak Khullar

GROUP CHIEF FINANCIAL OFFICER

Deepak Khullar was appointed 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. Before that, he worked for 12 years 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. Deepak is an alum of the University of Delhi and 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.



Siddiqa Abbas

GROUP CHIEF OPERATIONS OFFICER

We are saddened by the loss of Siddiqa Abbas, who passed away in February 2020.

She was appointed as ADCB's Group Chief Operations Officer in 2018 and led the Bank's Group Business Services (GBS) division, which includes the Technology, Operations, Customer Experience and Property Management teams. Siddiqa was responsible for ensuring the Bank had the operational, technological and property management capabilities and systems infrastructure to ensure reliable and agile business operations. With over 20 years of banking experience, she held a number of senior operational management positions at ADCB including Head of Branch Operations and Head of Consumer Banking Operations. Prior to her appointment as Group Chief Operations Officer, Siddiqa was the General Manager, ITMAM (ADCB's shared services subsidiary) from 2016–2018. Siddiqa held a Bachelor's degree in Mass Media from the UAE University in Al Ain.

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



Colin Fraser

GROUP HEAD OF WHOLESALE BANKING

Colin Fraser was appointed as Group Head of Wholesale Banking at ADCB in 2008. He is responsible for Cash Management, Trade Finance, Corporate Finance and Investment Banking across the Group. He is an Associate of the Chartered Institute of Bankers and a Fellow of the Royal Society for the Arts. Colin joined Barclays Bank in 1992 and undertook various roles as an international banker, including Corporate Banking Director, GCC. He completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduates.

Executive Management (continued)



Arup Mukhopadhyay

GROUP HEAD OF CONSUMER BANKING

Arup Mukhopadhyay joined ADCB in 2005 and is Head of the Consumer Banking Group. He had 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.



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.



Ali Darwish

GROUP HEAD OF HUMAN RESOURCES

Ali Darwish joined ADCB in 2010 and leads the Human Resources Group. Ali 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 engagement. Furthermore, he is responsible for driving the Bank's high-performance culture, organisational design and strategic projects.



Abdirizak Mohamed

GROUP CHIEF INTERNAL AUDITOR

Abdirizak Mohamed has been the Group Chief Internal Auditor at ADCB 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 current member of the UAE Banking Federation Audit Committee, and over the years served/continues to serve 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.

Executive Management (continued)



Simon Copleston

GROUP GENERAL COUNSEL AND BOARD SECRETARY

Simon Copleston has been Group General Counsel and Board Secretary at ADCB 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.



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 was responsible for 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. Paul holds a Bachelor of Commerce and Administration from Victoria University in New Zealand and a Post Graduate Diploma in Banking Management from Massey University in New Zealand. Paul 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 38 years, focusing on credit underwriting, remedial risk and restructuring. He has an in-depth understanding of the functionalities of all areas of the Bank.

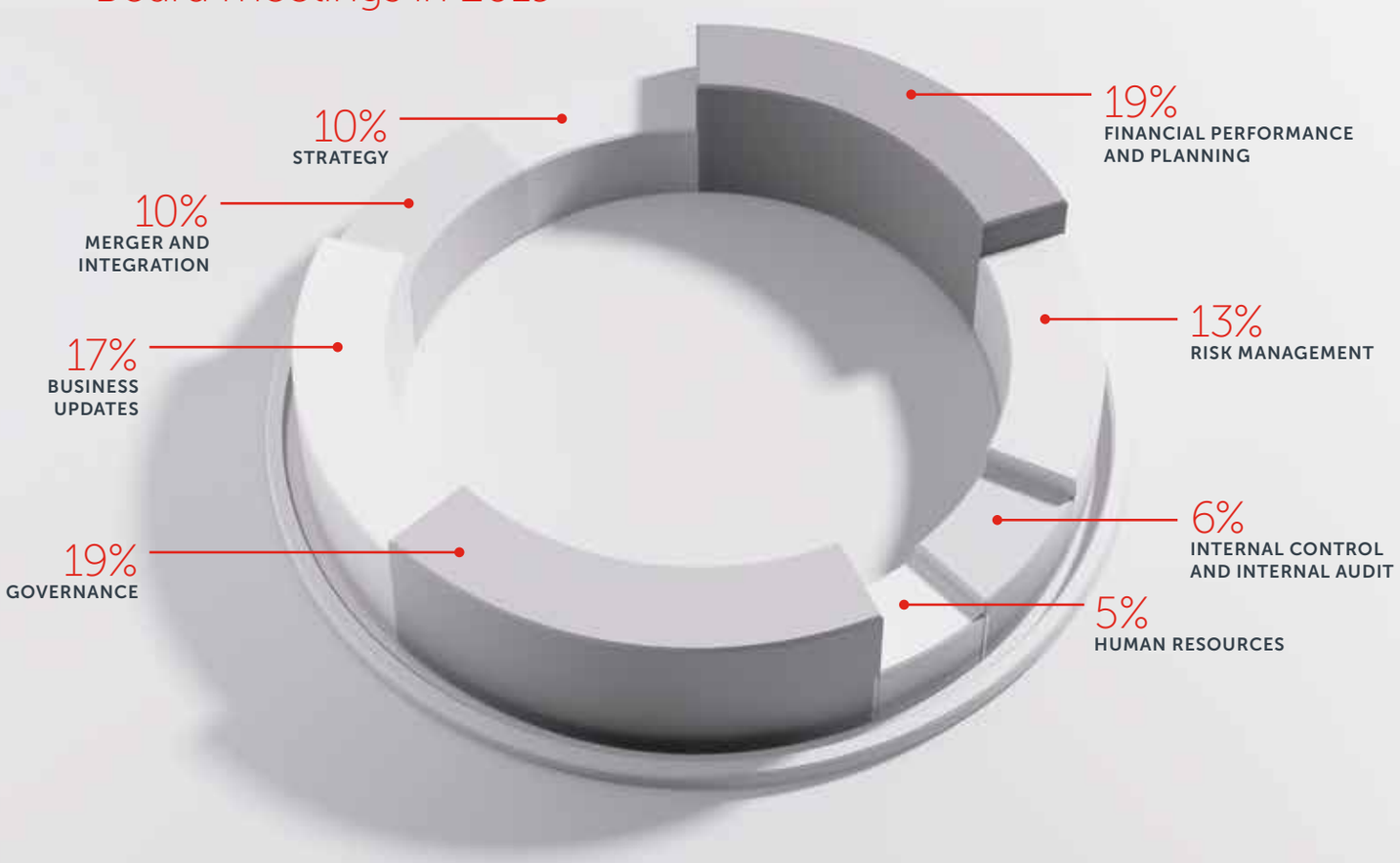
Prior to joining ADCB, Tilak worked for Hatton National Bank in Sri Lanka, undertaking different roles within the Credit Group.

Corporate Governance Report

We maintain a world-class corporate governance framework that protects our customers, our shareholders, and the reputation of the Bank. 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 the Bank'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.

Analysis of time spent at Board meetings in 2019



Corporate governance framework

THE BOARD: MEMBERSHIP, COMMITTEES AND MEETINGS

The Board, which consists of 11 members, met eight times in 2019. 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. In addition, Board members made regular visits to various divisions of the Bank to enrich their knowledge of our operations.

At the start of 2019, the Board had four standing Committees, which covered: Audit & Compliance, Corporate Governance, Risk & Credit, and Nomination, Compensation & Human Resources. During 2019, we merged Corporate Governance into the Nomination, Compensation & Human Resources Committee to create the Nomination, Compensation, Human Resources & Governance Committee.

Each member of the Board, with the exception of Ala'a Eraiqat, the Group Chief Executive Officer, serves on at least one standing Committee. The Committees met a total of 46 times in 2019. Chairmanships and memberships of the Board Committees are reviewed on a regular basis 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 the Bank and all its stakeholders. All non-executive Directors are considered independent, according to the UAE Central Bank's regulations on corporate governance.

On the management side, the Group Chief Internal Auditor reports to the Board's Audit & Compliance Committee, and the Board Secretary reports to the Board. The Group Chief Risk Officer has direct access to the Board Risk & Credit Committee and the Group Chief Compliance Officer has direct access to the Board Audit & Compliance Committee.

To ensure that the Board has the benefit of independent thinking and international governance expertise, Sir Gerry Grimstone was appointed as Independent Adviser to the Board in 2013. In 2019, Sir Gerry attended five Board meetings and the Board strategy session. His background and experience continue to enrich the Board's deliberations, particularly in the areas of strategy, governance, Board reporting and effectiveness, performance assessments for Senior Management, succession planning, and evaluation of risk appetite and rewards.

THE BOARD'S AGENDA IN 2019

The Board of Directors regularly discusses items that are fundamental to the direction of the Bank, 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 2019 are set out on pages 122–124.

BOARD AND BOARD COMMITTEE AGENDA ITEMS

AREA	Q1 2019	Q2 2019	Q3 2019	Q4 2019
GOVERNANCE	• 2019 Annual General Assembly (AGA) agenda • Shari'ah report for 2018 • Reports from Committee Chairmen, Committee minutes and other reports • Board expenses summary for the year 2018 • Board remuneration review for 2018 • Risk governance review • Annual culture and values assessment • Update on best practices developments • The UAE Banks Federation's governance risk rating • ADCB Annual Report 2018 • Conflict and related parties report • Directors' shareholdings	• Reports from Committee Chairmen, Committee minutes and other reports • MSCI ESG report • Governance metrics report • Election of Vice Chairman • Conflict of interest update • Nomination, Compensation, HR and Governance Committee Terms of Reference • Audit and Compliance Committee Terms of Reference • External Auditor Selection policy • Duties and responsibilities of the Board Secretary • Performance evaluation and remuneration policy for the Group CEO • Directors' shareholdings	• Reports from Committee Chairmen, Committee minutes and other reports • Conflict of interest and related parties report • Privacy and data security update • UAE Central Bank's Corporate Governance Regulations and Standards • Board performance evaluation policy • Directors code of conduct • Directors share dealing policy • Directors conflict of interest policy • Access to independent professional advice policy	• Reports from Committee Chairmen, Committee minutes and other reports • Conflict of interest update • 2019 Annual Report update • 2020 Board agenda and schedule • Management Executive Committee Terms of Reference • UAE Central Bank's Corporate Governance Regulations gap analysis • Board evaluation • 2020 AGM agenda • Disclosure enhancement recommendations for 2019 Annual Report • Directors' shareholdings • Reports from the chairmen of each committee for 2019 year • Schedules and agendas for the Board and for each Committee for 2020 year
FINANCIAL PERFORMANCE, PLANNING AND CONTROLS	• Group Chief Financial Officer's update • 2018 financial results, including performance by business group • External auditor presentation	• Group Chief Financial Officer's update • Q1 financial results, including performance by business group • External auditor presentation	• Group Chief Financial Officer's update • Q2 financial results, including performance by business group • Forecast for 2020 • External auditor presentation	• Group Chief Financial Officer's update • Q3 financial results, including performance by business group • External auditor presentation
BUSINESS UPDATES	• Group Chief Executive Officer's update • Group Business Services update (including technology, operations, customer experience and business & control) • Itmam services update • International branches update • Merger/integration update	• Group Chief Executive Officer's update • Wholesale Banking Group update • Abu Dhabi Commercial Properties update • Abu Dhabi Commercial Engineering Services update • Merger/integration update	• Group Chief Executive Officer's update • Consumer Banking update • Market update • Technology briefing • Merger/integration update	• Group Chief Executive Officer's update • 2020 funding plan and Treasury update • Merger/integration update • Digitalisation update

BOARD AND BOARD COMMITTEE AGENDA ITEMS (CONTINUED)

AREA	Q1 2019	Q2 2019	Q3 2019	Q4 2019
NOMINATION	• Update on induction for new Directors • Board elections at the 2019 AGA • Review of Directors' independence	• Review of the policy for selection and appointment of Directors • Board Committee composition review		
HR	• 2018 variable pay review • Review of the bank's incentive schemes • Group Chief Executive Officer evaluation and KPIs for 2019 • Update on LTIP purchases and vested/unvested shares	• Review of remuneration structure • Retention plan for 2019 • Update on LTIP purchases and vested/unvested shares • Semi-annual HR update • OHI culture survey • HR Group update (including recruitment, training and development, and employee services)	• Performance recognition reward • Emerging UAE National talent • Incentive plans risk review • Compensation plans • Public reporting on remuneration • 2019 retention plan review • 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 • Variable pay planning (2019 awards) • Remuneration strategy • Update on LTIP purchases and vested/unvested shares • Contribution of the Board Advisor • Enhancements to Board evaluation survey
AUDIT AND INTERNAL CONTROLS	• Group Chief Internal Auditor's report • Internal Audit update (including financial budget, staff strength, training plan) • Declaration of Internal Audit independence • Internal Audit plan for 2019 • Three-year Internal Audit plan and strategy (2019–2021) • Re-appointment of the statutory auditor • Financial statements for 2018 • ADCB India's concurrent auditors • IFRS 9 governance process • Internal Audit performance review • 2018 Internal Audit quality assurance assessment • Internal Audit charter, manual and strategy • Internal control effectiveness report	• Group Chief Internal Auditor's report • Internal Audit update • Financial statements for Q1 2019 • IFRS 9 governance process • Evaluation of statutory auditor for 2018 • External auditor fees for 2019 • Reserve Bank of India examination report on ADCB India • SCA examination report on ADCB Securities	• Group Chief Internal Auditor's report • Internal Audit update • Financial statements for Q2 2019 • IFRS 9 governance process • Review of external auditors management letter for 2019 • Internal Audit quality assessment • Directors' shareholdings	• Group Chief Internal Auditor's report • Internal Audit update • Financial statements for Q3 2019 • Internal Audit budget for 2020 • Reappointment of statutory auditors for ADCB India

BOARD AND BOARD COMMITTEE AGENDA ITEMS (CONTINUED)

AREA	Q1 2019	Q2 2019	Q3 2019	Q4 2019
RISK AND COMPLIANCE	• Group Chief Risk Officer's report • Risk update (including risk appetite statement) • Group Compliance update • Anti-bribery and Corruption policy • Chief Economist's update • Retail risk update • Portfolio risk update • Contractor industry review • Fraud update • Business continuity management • AML policy • Real estate portfolio update • Financial institutions portfolio and country risk update • Group Chief Credit Officer's update • Review of credit and risk policies • ICAAP policy • ICAAP stress testing 2019 • Underwriting update • Market risk update (including interest rate risk in the banking book policy and liquidity stress test policy) • Operational risk update	• Group Chief Risk Officer's report • Credit update • Treasury, market and liquidity risk update • Expected credit loss model harmonisation • ICAAP and stress testing results • Interest rate risk in the banking book policy • Liquidity stress test policy • Internal rate setting guidelines for EIBOR submission process • Operational risk update • MCD Corporate Division portfolio update • Group Compliance update • UAE economic chart book • ADCB India ICAAP • UAE Central Bank Information Assurance Standards • 2018 stress test feedback from the Central Bank	• Group Chief Risk Officer's report • Risk update (including risk appetite statement) • Chief Economist's update • Vendor management • Commercial banking portfolio update • Business continuity management • Contracting segment review • Group Compliance update • Industry sector update • Fraud update • Liquidity investment portfolio • Risk appetite statement • Information and cyber security update • Group Chief Credit Officer's update • Market risk update	• Group Chief Risk Officer's report • 2019 stress testing update • Treasury, market and liquidity risk update • ICAAP report • Industry sector update — private and hospitality sectors • Group Compliance policy • Risk appetite statement • Credit update • Strategic risk update • Annual assessment of compliance function
STRATEGIC ITEMS	• Performance versus strategy and KPIs • Competitor analysis — financial and strategic	• Three-year capital plan and forecast	• 2019 strategy session	• 2020 budget • Competitor analysis — financial and strategic • Capital planning

PERFORMANCE EVALUATION

The Board undergoes a rigorous in-house performance evaluation regularly in line with global standards. It also regularly engages an external consultant to conduct an independent performance evaluation. These evaluations cover a wide range of topics and include an assessment of individual Board members' performance, skills and expertise at Board level, succession planning, development of the Bank's strategy, and the form and content of management information supplied to the Board.

The evaluation also addresses training requirements. In 2019, the Board continued to ensure that its members received professional development in several areas, including operational risk, anti-money laundering, sanctions compliance and IFRS 9.

BOARD REMUNERATION

Directors' remuneration is set annually by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation, Human Resources & Governance Committee prior to obtaining Board and shareholders approvals. According to applicable laws and the Bank's articles of association, Directors may not receive any remuneration in years when the Bank does not achieve net profits.

As at 31 December 2019, the Bank's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank. The Bank'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 the Bank, not as a Director.

ADCB DIRECTORS' SHAREHOLDINGS

SR. NO	MEMBERS	AS AT DEC. 31, 2018	AS AT DEC. 31, 2019	CHANGE IN SHAREHOLDING
1	EISSA ALSUWAIDI	0	0	0
2	MOHAMED DHAEN ALHAMLI	N/A	0	N/A
3	ALA'A ERAIQAT	2,569,797	2,718,064*	148,267
4	AYSHA AL HALLAMI	0	0	0
5	ABDULLA ALMUTAWA	2,347,277	0	(2,347,277)
6	KHALED ALKHOORI	0	1,360,000	1,360,000
7	KHALID ALSUWAIDI	0	14,915	14,915
8	CARLOS OBEID	N/A	0	N/A
9	HUSSAIN ALNOWAIS	N/A	0	N/A
10	SAEED ALMAZROUEI	N/A	0	N/A
11	MOHAMED ALMEHAIRI	N/A	0	N/A

*Excluding 123,491 restricted units in the Bank's LTIP scheme with a final vesting dated of December 31, 2019.

THE FOLLOWING TABLE SHOWS THE AMOUNTS PAID TO THE DIRECTORS FOR THEIR SERVICE ON THE BOARD AND ITS COMMITTEES IN 2019

				BOARD MEMBER REMUNERATION (paid in 2019 for the year 2018)			NOMINATION, COMPENSATION, HR AND GOVERNANCE COMMITTEE (paid in 2019)		
Members	Status	Year of appointment	Expiration of current term of office	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)
Eissa Alsuwaidi	Non-executive Director	2008	2022	C	8	1,450,000	M	6	24,000
Mohamed Dhaen Alhamli[1]	Non-executive Director	2019	2022	VC	6	n/a[5]	C	4	20,000
Ala'a Eraiqat	Executive Director	2009	2022	M	8	-			
Aysha Al Hallami	Non-executive Director	2013	2022	M	7	950,000			
Abdulla Almutawa	Non-executive Director	1997	2022	M	7	950,000			
Khaled Alkhoori	Non-executive Director	2012	2022	M	8	950,000			
Khalid Alsuwaidi	Non-executive Director	2009	2022	M	8	950,000	M	2	8,000
Carlos Obeid[1]	Non-executive Director	2019	2022	M	6	n/a			
Hussain Alnowais[1]	Non-executive Director	2019	2022	M	3	n/a[5]	M	1	4,000
Saeed Almazrouei[1]	Non-executive Director	2019	2022	M	5	n/a	M	2	8,000
Mohamed Almehairi[1]	Non-executive Director	2019	2022	M	5	n/a	M	3	12,000
Mohamed Alhameli[2]	Non-executive Director	2004	n/a	VC	2	1,200,000	C	2	10,000
Mohamed Darwish Alkhoori[2]	Non-executive Director	2004	n/a	M	2	950,000	M	2	8,000
Mohamed Aldhaheri[2]	Non-executive Director	2007	n/a	M	2	950,000			
Shaikh Sultan Aldhaheri[2]	Non-executive Director	2009	n/a	M	1	950,000			
Faisal Aldhaheri[2]	Non-executive Director	2016	n/a	M	2	950,000			
TOTAL						**10,250,000**			**94,000**

1 Directors appointed at completion of the merger on 1 May 2020.

2 Directors who resigned from office effective 30 April 2020.

3 Non-BRCC members who attended SBRCC meetings.

4 Corporate Governance Committee was merged with the Nomination, Compensation & HR Committee in May 2019.

THE FOLLOWING TABLE SHOWS THE AMOUNTS PAID TO THE DIRECTORS FOR THEIR SERVICE ON THE BOARD AND ITS COMMITTEES IN 2019 (CONTINUED)

BOARD RISK AND CREDIT COMMITTEE (paid in 2019)			BOARD AUDIT AND COMPLIANCE COMMITTEE (paid in 2019)			BOARD CORPORATE GOVERNANCE COMMITTEE[4] (paid in 2019)			
Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Total (AED)
C	30	150,000							1,624,000
									20,000
									-
M	22	88,000	C	9	67,500				1,105,500
Non-member[3]	5	20,000	M	9	54,000				1,024,000
M	29	116,000				M	1	4,000	1,070,000
			M	8	48,000				1,006,000
M	16	64,000	M	5	30,000				94,000
									4,000
M	15	60,000							68,000
									12,000
M	5	20,000							1,230,000
M	5	20,000							978,000
Non-member[3]	1	4,000	M	3	18,000	C	1	5,000	977,000
						M	1	4,000	954,000
Non-member[3]	1	4,000				M	1	4,000	958,000
		546,000			**217,500**			**17,000**	**11,124,500**

5 All UNB directors received AED 630,000 in 2019 for their services in 2018, except for the Chairman, who waived his right to receive Board fees.

APPOINTMENT, RETIREMENT AND RE-ELECTION

The Bank recognises that an effective board is crucial to the success of its business. All Directors are required to seek re-election by shareholders every three years. The Abu Dhabi Investment Council has the right to elect a percentage of the Board that is proportionate to its holdings of the Bank's share capital.

As of year-end 2019, the Abu Dhabi Investment Council held 60.2% of the Bank's issued share capital and, consequently, had the right to elect six Directors and to vote a further 0.2% of the Bank's capital at the Board elections.

BOARD OVERSIGHT OF RISK MANAGEMENT

Risk management is a crucial part of ADCB's corporate governance framework. The Board of Directors has overall responsibility for setting our risk appetite and for ensuring risk is effectively managed.

The Board Risk & Credit Committee (BRCC) oversees risk monitoring and management. It works with management to define risk appetite and strategy as appropriate for particular sectors, geographic regions and customer types. The BRCC also reviews the suitability and effectiveness of the Bank's risk management systems and controls, and reviews stress tests and the Bank's stress-testing methodologies. It also ensures that our risk governance supports prudent risk-taking at all levels in the Bank. During 2019, the Committee also sought assurance from Senior Management that the UAE Central Bank's regulations relating to market risk, interest rate and rate of return risk in the banking book, as well as country risk and credit risk 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 the Bank's financial disclosures are also key roles performed by your Board. In 2019, the Board Audit & Compliance Committee assessed the objectivity and effectiveness of the Bank's financial reporting and disclosure process. This included monitoring the Bank's choice of accounting policies, principles and judgements. The Committee also reviewed the IFRS 9 governance process and models and ensured the Bank's compliance with UAE Central Bank's regulations relating to internal controls, compliance and internal audit.

CULTURE

A key responsibility of your Board is to ensure that the Bank builds and maintains a healthy culture. The Bank believes that companies that attach equal importance to performance and culture achieve exceptional results over time. During 2019, the Bank engaged the services of a leading international consultancy group to assess the Bank's organisational health. The assessment concluded that the Bank ranks in the top decile globally for organisational health, which reflects a robust culture across all dimensions of the Bank, including direction, accountability, innovation and learning, motivation, leadership and work environment.

The Board is committed to supporting gender diversity. As a result, as at December 31, 2019, women represented 10% of the Bank's Board membership. Going forward, in line with regulatory requirements, the Bank will ensure that at least 20% of candidates considered for Board membership are female.

MANAGEMENT COMMITTEES

COMMITTEE NAME	NUMBER OF MEETINGS HELD IN 2019	RESPONSIBILITIES OF THE COMMITTEE
MANAGEMENT EXECUTIVE (MEC)	37	Most senior management Committee; oversees all Bank businesses and operations
ASSETS & LIABILITIES (ALCO)	7	Formulates the Bank'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)	47	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)	6	Monitors financial performance of the Bank's business lines

BOARD OVERSIGHT OF RELATED PARTY TRANSACTIONS

The Bank has robust processes in place to identify, assess, monitor and report the Bank'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 Board Nomination, Compensation, HR and Governance Committee every quarter.

During 2019, 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 36 to the Financial Statements on page 214. These transactions were undertaken as part of the Bank's day-to-day operations.

BOARD OVERSIGHT OF THE GROUP STRUCTURE

The Bank has robust processes for establishing and dissolving entities within the Group. The Board ensures that the Group's legal, organisational and operational structure is suitable for its needs. During 2020, following the enlargement of the Group in 2019, the Board will address 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 48 to the Financial Statements on page 254.

AUDIT ARRANGEMENTS

Deloitte & Touche, the external auditors, were appointed at the 2015 Annual General Meeting (AGM) and reappointed at the 2016, 2017, 2018, and (exceptionally due to the merger) 2019 AGMs. While local laws and Bank policy restrict the external auditors' tenure to no more than three consecutive renewals, they allow for certain exceptions. Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. New external auditors will be appointed for the 2020 financial year.

In 2019, the audit fees for the Bank and its subsidiaries, excluding India and Egypt operations, amounted to AED 4,242,476, and fees for non-audit work amounted to AED 1,363,690. Non-audit work comprised: a comfort letter related to the Bank's Global Medium Term Note Programme, review of IFRS 9 model, ICFR audit, prudential returns review for the Bank's Jersey Branch, due diligence services and consultancy on tax matters.

THE BANK'S APPROACH TO DISCLOSURE

The Bank is committed to high standards of transparency and to enhancing our disclosures regularly to reflect local and international best-practice. In this year's Annual Report, we have sought to further improve clarity around the Bank's culture, the Group structure, and the Board's oversight of related party transactions to align with the requirements of the UAE Central Bank's regulations on corporate governance.

We are confident that the Bank 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 the Bank's website is up to date. The Bank'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 the Bank'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 at ADCB: 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 the Bank's shareholders and to incentivise higher performance while avoiding excessive risk-taking. It also distinguishes amongst different functions of the Bank, to ensure alignment to the relevant market.

DEFINITION AND COMPONENTS OF PAY

FIXED PAY

Definition	Components	2019 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 2019, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 29.176 million.

VARIABLE PAY

Definition	Performance Criteria	2018 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 things: • Individual performance; • Business function performance; and • Overall performance of the Bank. For more information, see ADCB's Variable Pay Framework & Governance—Key Facts, on page 132.	For performance in 2018, awards to employees in 2019 consisted of cash variable pay awards of AED 161.269 million and deferred compensation plan awards of AED 57.4 million. Key Management received AED 29.79 million in cash and AED 26.76 million in deferred compensation from the amounts set forth above.

RETENTION SCHEME

Definition	Selection Criteria	2019 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 Committee; 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 2019.

The NCHRG Committee 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 the Bank'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 the Bank'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 Nomination, Compensation, HR & Governance Committee regularly seeks independent consultants' views on (a) the quantum, (b) design, and (c) effectiveness of the Bank's variable pay awards and framework. An independent review of the design and effectiveness of the Bank's variable pay framework will take place early in 2020.

ADCB'S VARIABLE PAY FRAMEWORK & GOVERNANCE — KEY FACTS

Reflects individual, business function and Bank-wide performance	**YES**
Distinguishes amongst different functions of the Bank 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 Nomination, Compensation, Human Resources & Governance Committee	**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 the Bank'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 the Bank'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 Fatawas 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 the Bank'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. The Bank'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

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.

SHEIKH DR. NIZAM YAQUBY, EXECUTIVE MEMBER

Sheikh Dr. Nizam is one of the most prominent Shari'ah scholars in the world and chairs, or is a member of, the ISSC at several regional and global Islamic banks and financial institutions. He has a strong international reputation for his in-depth knowledge of banking and Shari'ah coupled with a progressive approach towards modern banking solutions.

MR. KAMRAN KHALID SHERWANI, ISSC SECRETARY

Mr. Kamran is Shari'ah Advisor 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 each product, service, process and transaction and other Shari'ah-related matters. Mr. Kamran 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 and other financial institutions.

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

Issued on: 09 February 2020

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 2019 ("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 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") regarding the 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. **Works Undertaken by the ISSC During the Financial Year**
   The ISSC undertook Shari'ah supervision of the Institution's Activities through review of those Activities, and monitoring through division or internal section of internal Shari'ah control, internal Shari'ah audit, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:



Sheikh Dr. Nizam Yaquby
Executive Member



Professor Dr. Jassim Al Shamsi
Chairman of the Committee

a. Convening (4) meetings during the year.

b. Providing fatwas, opinions and resolutions 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 holders of investment accounts and shareholders with parameters set by the ISSC.

e. Supervision through division or section of internal Shari'ah Control, internal Shari'ah Audit, of the Institution's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

f. Providing direction to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by division of section of the internal Shari'ah control, 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.

g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

h. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning compliance of the Institution 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, including (47) of breaches that did not result in setting aside revenue. 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 of the Institution



Sheikh Dr. Nizam Yaquby
Executive Member



Professor Dr. Jassim Al Shamsi
Chairman of the Committee

AL HILAL BANK PJSC

BOARD OF DIRECTORS (AS AT DECEMBER 31, 2019)

- Ala'a Eraiqat*
- Siddiqa Abbas*
- Saoud Al Jassem
- Mohamed Al Jayyash
- Kevin Taylor*
- Arup Mukhopadhyay*
- Deepak Khullar*

*Please refer to pages 108–113 for the profiles of these Directors.

BOARD MEMBERS

MOHAMED AL JAYYASH

Mohamed Al Jayyash was appointed ADCB's Acting Group Chief Operations Officer in December 2019. He has held senior operational management positions at ADCB, including Chief Service Officer and Branch Operations Manager. With over 15 years of experience in banking, he now leads the Group Business Services (GBS) division which includes the Operations, Customer Experience, Technology and Property Management teams. GBS is responsible for ensuring the Group has the operational, technological and property management capabilities and systems infrastructure to ensure reliable and agile business operations across the Group.

He is the Chairperson of several ADCB subsidiary companies including ITMAM Services L.L.C., Abu Dhabi Commercial Engineering Services L.L.C. and Abu Dhabi Commercial Properties L.L.C., and a Board Member of Al Hilal Bank PJSC. He is the Chairman of the Board of Directors of Emirates Digital Wallet L.L.C.

Mohamed holds a bachelor's degree in Business Administration from Al Ghurair University in the UAE. He also holds a postgraduate certificate in Management from Ashridge Executive Education HULT in the UK and a diploma in Banking from the Emirates Institute for Banking and Financial Studies in Sharjah.

SAOUD AL JASSEM

Saoud Al Jassem was appointed to join the Board of Directors 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 Directors 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 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. IAN HODGES (SENIOR MANAGING DIRECTOR, PERSONAL BANKING GROUP)

Ian Hodges is the Senior Managing Director, Personal Banking Group at Al Hilal Bank. With over 30 years of experience across retail and digital banking, Ian is responsible for leading frontline delivery across Branches, Executive Banking and Digital; the development of products and services to enhance the customer experience; and Investment Banking, in line with

the strategic objectives of Al Hilal Bank and the ADCB Group. Before joining the Bank, Ian served as the Head of Business Development at the Al Etihad Credit Bureau. He also held the roles of Managing Director, Retail Banking at the National Bank of Ras Al Khaimah, and Director, Branch Network for the UK-based Cooperative Bank. In his early career, Ian worked as Head of Call Centre at the Cooperative Bank and in a number of management roles at Lloyds TSB in the UK.

4. 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.

5. 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.

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

Dr. Mohamed Obadah Adi is Head of Shariah 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.

7. 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.

8. 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.

9. 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.

10. 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. He reports to the Board Audit and Compliance Committee and has managed the internal audit function at Bank since 2012. 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
SIDDIQA ABBAS	M	3
SAOUD AL JASSEM	M	6
MOHAMED AL JAYYASH	M	6
KEVIN TAYLOR	M	6
ARUP MUKHOPADHYAY	M	6
DEEPAK KHULLAR	M	5

BOARD COMPOSITION AND REMUNERATION

Following ADCB's acquisition of the entire share of capital of Al Hilal Bank, a new Board of Directors was 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 2019, the newly appointed board met six times. The table above shows the Board's attendance.

THE BOARD'S AGENDA IN 2019

The Board of Directors 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 2019 are set out on pages 122–124.

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 of Directors is responsible for setting the Bank's risk appetite and risk management framework. 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 2019, 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

DEFINITION AND COMPONENTS OF PAY

AREA	AGENDA ITEM
GOVERNANCE / AUDIT / STRATEGY	• 2019 rolling agenda • Appointment of external auditors • Management committees report • Strategy update • Internal Audit update • 2020 budget • 2020 board schedule and rolling agenda • Al Hilal Takaful General Assembly
FINANCIAL PERFORMANCE	• Financial results including business performance • Periodic financial update
GROUP CHIEF EXECUTIVE OFFICER / BUSINESS UPDATES	• Chief Executive Officer's update • Personal banking group update • Integration update • Quarterly business update • Cost saving update • Al Hilal Takaful update • Al Hilal Auto update • Al Hilal Mariah Development LLC update • Al Hilal Bank Kazakhstan update • 2018 external auditor's management letter review • Digitalisation update • Staff financing policy
HR RELATED / REMUNERATION / NOMINATION	• HR update • Emiratisation update • Board Committee membership
RISK AND COMPLIANCE	• Risk update (including risk appetite statement) • Compliance update • Sanctions policy • Common Reporting Standards policy • KYC policy • AML policy • Write-off policy • Provision policy • Credit policies • Cyber resiliency and compromise assessment • Fraud enterprise risk management system update • Privilege assess management system update • Business continuity management • ICAAP update • Fraud Risk Management policy • Operational Risk Management policy • Liquidity and investment portfolio update

and compliance frameworks. Another important area of focus was cybersecurity. The Bank successfully completed a cyber-resilience and compromise assessment and executed a privilege access management system update.

2019 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, 5th Jumada Al Akhirah 1441 AH, corresponding to 30th Jan 2020

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 2019 ("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. Works of the ISSC included the following:

   a. Convening eight meetings during the financial year.

   b. Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Bank's Activities.

   c. 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.

   d. 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.

e. 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.

f. 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.

g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

h. Specifying the amount of Zakat due on each of the Bank's shares.

i. Specifying the amount of Zakat due on the depositor's reserves.

j. Monitoring charity account sources and payments.

k. 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 Bank

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 ten breaches that did not result in setting aside revenue. The ISSC also issued directions to take appropriate measures 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



Dr. Ibrahim Ali Al Mansoori
Chairman



Dr. Ali Husain Al Junaidi
Member



Dr. Salim Ali Al Ali
Member

Audit & Compliance Committee

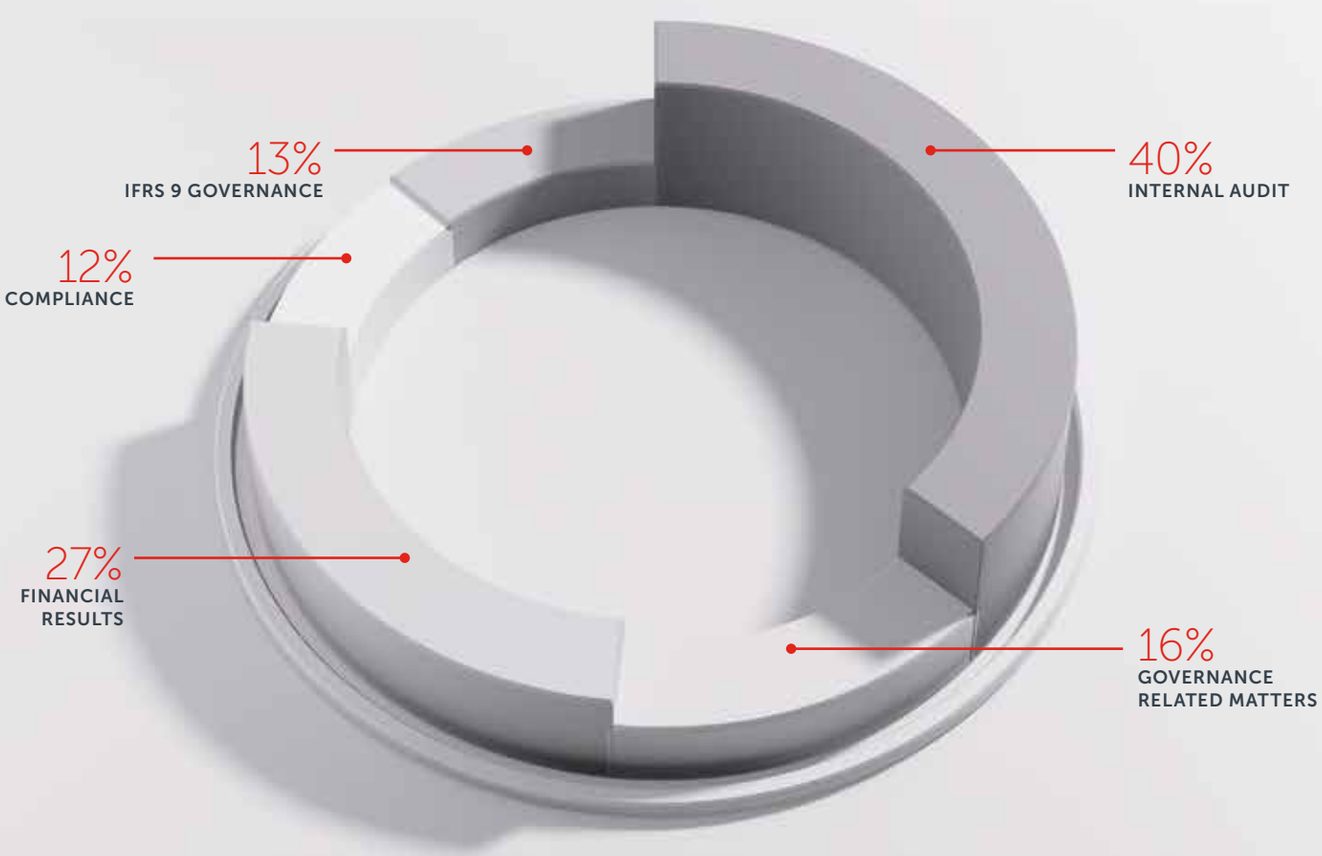
Statement from the Chairlady

Composition as at 31 December 2019:
Aysha Al Hallami (Chairlady), Khalid Deemas Alsuwaidi, Carlos Obeid, Abdulla Khalil Almutawa
Secretary: Rami Raslan

OUR REMIT

The primary responsibilities and functions of the Audit & Compliance Committee are to help the Board to fulfil its duties to ensure and oversee:

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



Dear Shareholders,

During 2019, the Audit & Compliance Committee held nine meetings, during which the Committee:

- Assessed the objectivity and effectiveness of the Bank's financial reporting and disclosure process. This included monitoring of the Bank's choice of accounting policies, principles and judgements;
- Reviewed and discussed the Bank's IFRS 9 governance process, models, and implications for the Bank's financial statements (before and after the merger with UNB) and ensured the Bank's compliance with UAE Central Bank's regulations relating to IFRS 9;
- Evaluated the external auditors' qualifications, performance, independence and objectivity, reviewed the scope of work proposed by the external auditors for 2019, and exercised oversight of all non-audit work carried out by the external audit firm;
- Considered purchase price adjustments recommended by management following the merger with UNB and acquisition of Al Hilal Bank;
- Considered the performance, effectiveness and activities of the Bank's Internal Audit function (and separately, the performance of the Head of Internal Audit) and reviewed updates to its audit plan, staffing plan, training plan, charter, manual, and strategy taking note of the new UAE Central Bank's regulations on Internal Control, Compliance & Internal Audit;
- Oversaw the activities and assessed the performance of the Bank's Group Compliance function and considered updates to relevant policies (including the Bank's Group Compliance Policy) to ensure the robustness of the Bank's compliance framework taking into account the new UAE Central Bank Corporate Governance regulations;
- Received regulatory, conduct compliance, fraud and operational risk management updates;
- Reviewed the effectiveness of the Bank's internal controls framework and ensured the existence of an effective system of internal controls taking note of the new UAE Central Bank regulations on Internal Control, Compliance & Internal Audit;
- Reviewed the Bank's quarterly and annual audited financial statements;
- Reviewed and ensured appropriate action against audit and review observations raised by the internal and external auditors, the UAE Central Bank, the Abu Dhabi Accountability Authority and other regulators;
- Reviewed the Committee's terms of reference and the policies sponsored by the Committee, and ensured that new regulations were reflected in those terms of reference and policies, as appropriate;
- Received and considered Internal Audit's report for 2018;
- Received and considered an external and independent quality assurance and assessment of the Bank's Internal Audit function;
- Rreceived 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 the Bank's shares; and
- Reported regularly to the Bank's Board of Directors.

During 2019, the Committee continued to assess the Bank's implementation of IFRS 9. The Committee regularly met with the Bank's management and external auditors to ensure that the Bank's models, methodologies, critical accounting judgements, and financial disclosures remained in compliance with IFRS 9 requirements, and to ensure that any subjective judgments had been made appropriately. We also considered the suitability of purchase price adjustments following the Bank's merger with UNB and acquisition of Al Hilal Bank.

The Bank's external auditor was due to be rotated in 2019. However, due to the complex accounting adjustments required by the merger, the Committee recommended that Deloitte continue as the Bank's external auditor for the 2019 year. A new firm will be appointed for the 2020 financial year.

The Committee regularly met with the external and internal auditors without the presence of the Bank's management to discuss issues arising. In addition, Committee members attended meetings of the Risk & Credit Committee to ensure an adequate flow of information between the two Committees.

We received confirmation from the Bank's Internal Audit Group and external auditors that the Bank's internal controls were assessed for effectiveness. The Committee ensured that the Bank's internal audit plan in 2019 focused on providing assurance that, following the merger, the expanded Group's internal controls remain robust.

The Committee considers that it made positive progress during 2019 towards meeting its responsibilities.

LOOKING INTO 2020

Our schedule in 2020 contemplates nine meetings focused on a range of key issues. These include the integrity of the Bank's financial statements, the Bank's provisioning and ECL models (and their appropriateness following the merger), merger-related purchase price adjustments, assessment and oversight of the Group's Internal Audit and Compliance functions' activities and performance, and the performance of the Bank's External auditors.

We will also oversee the adoption and implementation of new UAE Central Bank regulations and continue to work with management and external auditors to assess the effectiveness of the Bank's IFRS 9-related policies, governance practices, models and controls — including oversight of staging of key accounts and overrides.

The Committee will continue to coordinate its activities with those of the Board Risk & Credit Committee to ensure a free-flow of information between the two Committees. We will recommend a new external auditor for the Board's and the shareholders' approval, in line with local and international best practices and regulatory requirements concerning external auditor rotation.

Finally, we will also continue to ensure that the Bank's internal audit team continues to review the controls of the enlarged Group following the merger.

AYSHA AL HALLAMI

CHAIRLADY OF THE BOARD'S
AUDIT & COMPLIANCE COMMITTEE

Nomination, Compensation, HR and Governance Committee

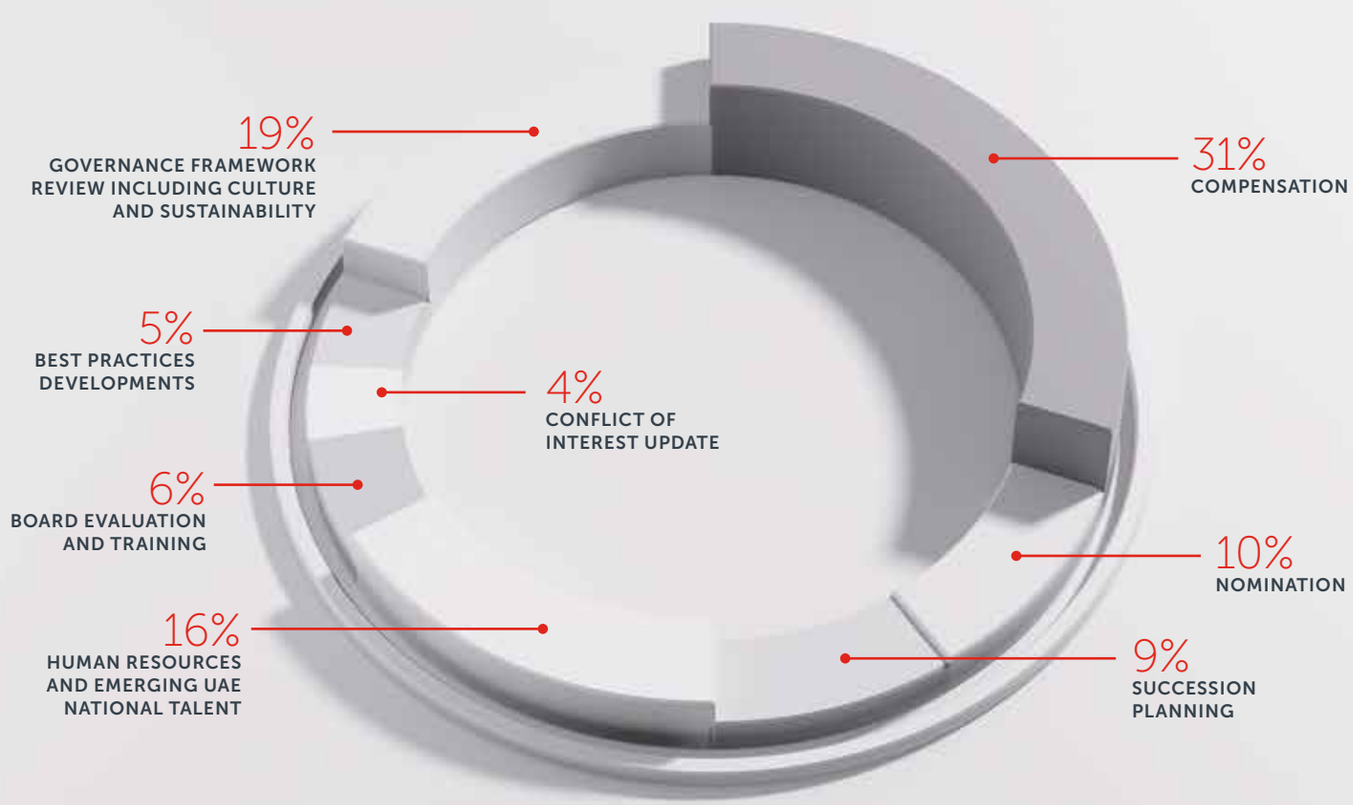
Statement from the Chairman

Composition as at 31 December 2019:
Mohamed Dhaen Mahasoon Alhamli (Chairman), Eissa Mohamed Alsuwaidi, Mohamed Hamad Ghanem Almehairi, Saeed Mohamed Hamad Almazrouei, Hussain Jasim Naser Alnowais
Secretary: Rami Raslan

OUR REMIT

The Nomination, Compensation, HR and Governance Committee is responsible for:

- Ensuring the appropriate composition and skillset of the Board and the Board Committees
- Ensuring the appropriate diversity of the Board of Directors
- 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
- Developing, applying and reviewing human resources and training policies



- Developing and overseeing implementation of the Group's HR strategy (including Emiratisation)
- Determining ADCB's requirements for executive managers and employees
- Considering remuneration policies for management and the Board, and the Bank's remuneration and incentive plans
- Reporting publicly on ADCB's remuneration and governance matters
- Implementing ADCB's governance framework and ensuring it is maintained and complies with applicable governance regulations
- Operating a framework that addresses conflict of interest and related parties transactions
- Establishing and monitoring the Bank's corporate culture and values, including its risk culture
- Establishing the Bank's corporate sustainability strategy
- Ensuring compliance with regulatory requirements relating to corporate governance and the Bank's Code of Corporate Governance
- Developing corporate governance procedures and best practices within the Bank

Dear Shareholders,

During 2019, the Nomination, Compensation & HR Committee merged with the Corporate Governance Committee to form the Nomination, Compensation, HR and Governance Committee. The Committee focuses on the Bank's Human Resources and remuneration strategies, the Board's composition and diversity, various governance and compliance matters, and — following the Bank's merger with Union National Bank (UNB) and its acquisition of Al Hilal Bank (AHB) — post-merger integration matters.

The Committee met six times during 2019 and we:

- Received regular updates from the Bank's Human Resources team;
- Considered an internal and external assessment of the Bank's culture and values;
- Considered a gap analysis of the Bank's compliance with newly released corporate governance regulations issued by the UAE Central Bank;
- Assessed the Board's selection, appointment and induction processes;
- Reviewed the Board's composition, including its diversity and mix of skills, in relation to the UAE Central Bank's regulations on corporate governance;
- Evaluated the Directors' remuneration and fees;
- Evaluated the Directors' contributions over the year;
- Assessed Board members' independence status as per the UAE Central Bank's regulations on corporate governance and considered institutional investors' views about the independence of the Bank's Board members;
- Considered the performance evaluation, key performance indicators, and remuneration of the Bank's Group Chief Executive Officer;
- Reviewed and supervised the operation of the Bank's remuneration framework including its fixed and variable pay schemes, retention awards and performance recognition;
- Considered the Bank's remuneration plans and assessed the effectiveness of the Bank's remuneration strategy following the merger;
- Approved the compensation of Senior Management;
- Reviewed the framework for, and operation of, the Bank's incentive, commission and share schemes and considered a risk assessment of these schemes;
- Considered the Bank's disclosure and transparency practices in relation to the UAE Central Bank's regulations on corporate governance;
- Managed the Bank's long-term succession strategy, assessed succession plans for key executives, and focused on talent management;
- Remained focused on the Bank's Emiratisation strategy and emerging UAE National talent. In particular, the Committee ensured that the Bank exceeded the target set by the Central Bank in this regard for the year 2019;
- Considered and assessed the contributions of the Board Adviser to the Board's activities;
- Engaged the Bank's divisions and various businesses on the governance framework and provided guidance on enhancing governance practices;
- Assessed the Bank's risk governance framework against the UAE Central Bank's regulations on corporate governance and Basel guidelines;
- Ensured the publishing of corporate governance information, including information included in the Bank's Annual Report and on the Bank's website;
- Ensured adequate corporate governance disclosures were made across various disclosure channels;
- Reviewed and considered enhancements and best practices in corporate governance and made recommendations to the Board and Board Committees on governance matters;
- Assessed the Bank's governance against the UAE Bank's Federation (UBF) governance risk rating criteria;

- Reviewed the Bank's key Human Resources and Corporate Governance policies and processes including, amongst others, the Bank's ethics and compliance policy, privacy and data security policy and sustainability policy.

During 2019, the Bank's remuneration schemes, and Emiratisation strategy remained key focus areas for the Committee.

We continued to develop KPIs to assess the effectiveness of the Bank's variable remuneration schemes and noted that these schemes continue to deliver the desired objectives. We also considered the post-merger alignment of the Bank's remuneration framework with those of UNB and AHB. We continue to believe that the Bank's remuneration policies remain appropriate for the Bank's current size and status and that its remuneration framework is in line with international best practices. In addition, in accordance with best practices and the requirements of the UAE Central Bank's regulations on corporate governance, the Nomination, Compensation, HR & Governance Committee will seek an independent review of the design and effectiveness of the Bank's variable pay framework early in 2020.

The Committee also continued to prioritise UAE National development, focusing on the recruitment, retention and training of talented UAE National staff. With regard to corporate governance, the Committee continued to monitor international best practices for governance and benchmark the Bank against these. We considered a gap analysis of the Bank's compliance with the UAE Central Bank's regulations on corporate governance, and were pleased to note that the Bank has already implemented into its corporate governance framework many of the UAE Central Bank's regulations on corporate governance. We also considered compliance plans submitted to the Central Bank to further implement the UAE Central Bank's regulations on corporate governance.

Finally, the Committee reviewed the overall culture of the Bank. The Committee was pleased to note that based on a survey conducted by external consultants, the Bank ranks in the top decile globally for organisational health.

The Committee considers that it made positive progress during 2019 towards meeting its responsibilities.

LOOKING INTO 2020

In 2020 we will continue to focus on the Bank's Emiratisation strategy and HR activities. We will also review the Bank's culture, and oversee efforts to ensure that culture is fully integrated following the merger. We will also focus on succession planning, particularly at a senior level, as well as talent acquisition and staff training.

During 2020, following the enlargement of the Group in 2019, we will also focus on subsidiary governance, with the aim of ensuring that a framework is in place which is suitable for the enlarged Group.

The Committee will continue to consider Board Committees' memberships, the design of incentive and compensation schemes, and the Bank's diversity policies. It will engage an independent review of the Bank's remuneration framework in accordance with the UAE Central Bank's regulations on corporate governance and will ensure that the Bank's governance policies and processes are brought into full compliance with those regulations.

MOHAMED DHAEN MAHASOON ALHAMLI

CHAIRMAN OF THE BOARD'S NOMINATION, COMPENSATION & HR COMMITTEE

Risk & Credit Committee

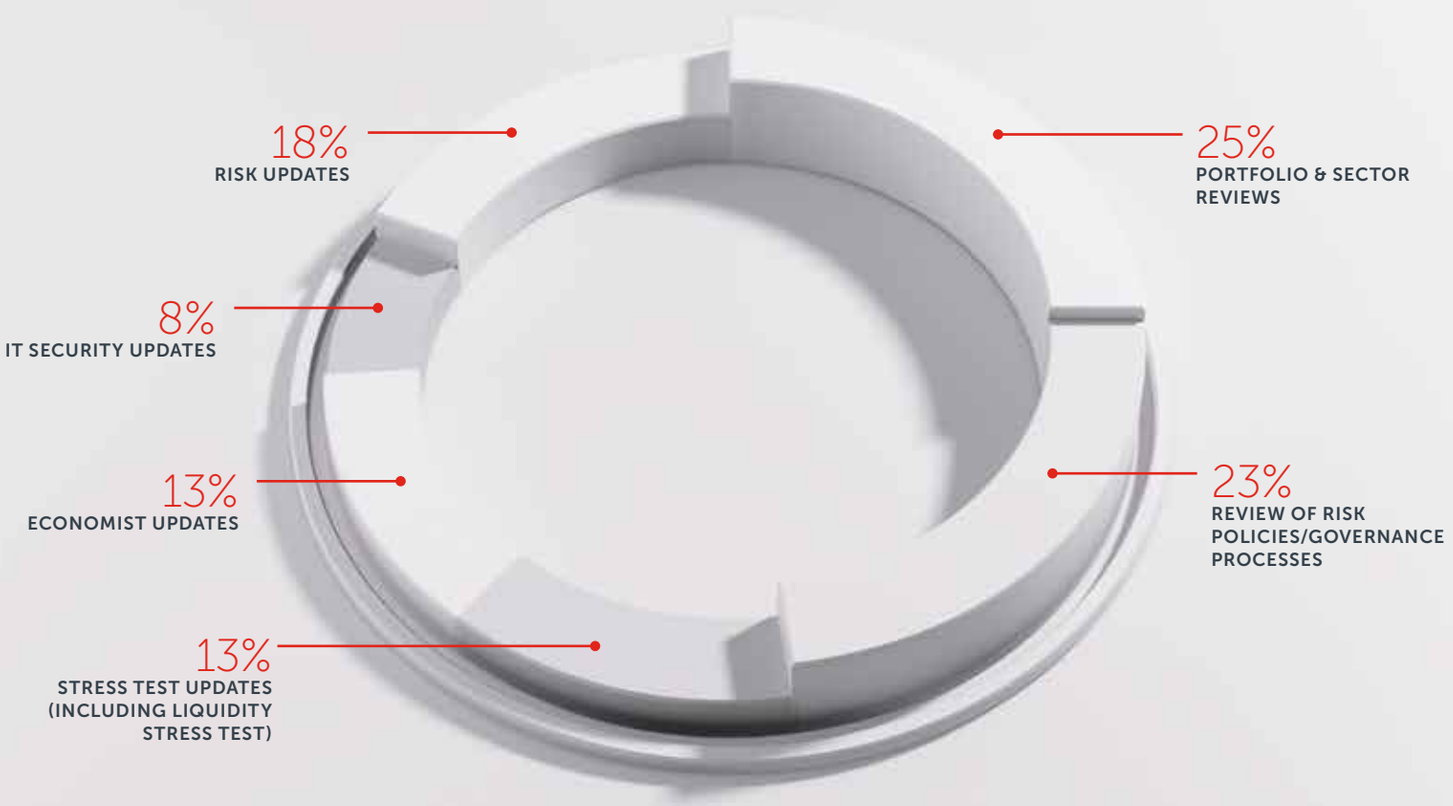
Statement from the Chairman

Composition as at 31 December 2019:
Eissa Mohamed Alsuwaidi (Chairman), Khaled H. Alkhoori, Aysha Al Hallami, Saeed Mohamed Hamad Almazrouei, Carlos Obeid
Secretary: Rami Raslan

OUR REMIT

The Risk & Credit Committee is responsible for:

- Development of risk management tools;
- Development and implementation of risk management strategies and limits, and the Bank's risk appetite;
- Compliance with regulatory requirements relating to risk management;
- Public reporting on risk management matters; and
- Major credit commitments of the Bank.



Dear Shareholders,

During 2019, the Risk & Credit Committee held seven meetings focused on risk and 23 meetings focused on credit, during which the Committee:

- Assisted the Board in defining the Bank's risk appetite and risk strategy and ensured that the Bank's risk exposures conform to the risk appetite approved by the Board;
- Considered risks assumed as a result of the merger with UNB and acquisition of Al Hilal Bank and how to align these with the Bank's risk appetite;
- Reviewed the Bank's key risk limits and exposures (including combined limits and exposures resulting from the merger with UNB and acquisition of Al Hilal Bank) including liquidity, credit, market, and operational risk limits and exposures, and ensured that these were managed within the Bank's risk framework and in compliance with UAE Central Bank's regulations;
- Considered the Bank's concentrations and sectoral credit exposures, and ensured that the Bank's overall concentration and sectoral credit exposures were in line with UAE Central Bank's regulations;
- Reviewed the effectiveness of the Bank's market risk framework and related policies, including the Bank's interest rate risk in banking book (IRRBB) policy;
- Reviewed the Bank's Investment and Liquidity portfolio;
- Reviewed the Bank's Operational Risk framework and associated policies;
- Received an update on fraud committed against the Bank and associated policies;
- Reviewed management decisions on credit exposures;
- Received and considered updates from the Bank's Chief Credit Officer on the Bank's credit exposures;
- Reviewed and discussed the Bank's IFRS 9 governance policies and processes (before and following the merger with UNB and acquisition of Al Hilal Bank) to ensure that these remain prudent and in line with the UAE Central Bank's requirements and to ensure that any subjective judgments are made appropriately;
- Reviewed the Bank's IT, physical security and cyber risks and ensured that the Bank had implemented a proactive approach towards managing these risks;
- Kept abreast of UAE's micro and macro-economic developments and analysed related geographic and geopolitical risks;
- Monitored the effectiveness of the Bank's risk management functions;
- Reviewed the Bank's vendor management practices;
- Considered the outcome of stress tests and reverse stress tests conducted on various key portfolios both before and after the merger with UNB and acquisition of Al Hilal Bank, and ensured that the outcomes of such tests were reflected in the Bank's risk appetite, capital adequacy assessments, budgets and capital and liquidity plans. The Committee also considered the UAE Central Bank's feedback on the Bank's stress testing methodology;
- Considered the Bank's enterprise-wide liquidity stress testing results;
- Reviewed the Bank's business continuity plan and received an independent third party assessment on its adequacy; and
- Approved and oversaw the implementation or updating of key policies, including, but not limited to, the internal capital adequacy assessment policy (ICAAP) and operational risk policy, whilst ensuring that new regulations were reflected as appropriate.

During 2019, the Committee continued to focus on the Bank's adherence to its risk appetite and strategy. In particular, the Committee reviewed the Bank's risk appetite metrics in light of changing market conditions, regulatory requirements and the nature, size and complexity of the Group after the merger.

We regularly received updates on business sectors (including hospitality, real estate, construction and retail) and the Bank's portfolios (including retail, commercial, mid-corporate and financial institutions) to maintain awareness of the business environment.

Along with the Board's Audit and Compliance Committee, we oversaw the Bank's ongoing application of IFRS 9. In particular, we assessed the Bank's IFRS 9 expected credit loss (ECL) estimates and the reporting process and staging of its most significant accounts before and after the merger to ensure adherence to the Bank's IFRS 9 models.

The Committee also continued to focus on ensuring that the UAE Central Bank's requirements on stress testing were met. In collaboration with the Bank's management, we ensured that the Bank's stress testing methodologies and models were reviewed and remained adequate following the merger.

The Committee considers that it made positive progress during 2019 towards meeting its responsibilities.

LOOKING INTO 2020

Our schedule in 2020 contemplates seven meetings focused on the Bank's risk strategy, appetite, and stress testing. Separately, the Committee will continue to meet to consider high value or sensitive credit decisions.

In compliance with recent UAE Central Bank's regulations on corporate governance, the Committee will assess the performance of the Bank's compliance function together with the Board Audit and Compliance Committee. We will also continue to ensure that effective communication between the two committees is facilitated to manage risk.

We will continue to assess the effectiveness and suitability of the Bank's IFRS 9 policies and governance. We will also continue to dynamically review the appropriateness of the Bank's risk strategy and limits, considering the nature, size, and complexity of the Group's business following the merger. Finally, we will bring all of the Bank's risk governance policies, procedures, practices and documents into a centralised Group-wide risk governance framework.

EISSA MOHAMED ALSUWAIDI

CHAIRMAN OF THE BOARD'S RISK & CREDIT COMMITTEE

GOVERNANCE DOCUMENTS AVAILABLE ON OUR WEBSITE

- Articles of Association
- Code of Corporate Governance
- Codes of Conduct for our employees and our Directors
- External Auditor's Appointment Policy
- Board Performance Evaluation Policy
- Procedures for selecting and appointing the Bank's Directors
- Conflicts of Interest Policy for Directors
- Directors' Share Dealing Policy
- Committee terms of reference

OUR WEBSITE ALSO CONTAINS INFORMATION ABOUT THE FOLLOWING SUBJECTS:

- Our disclosure standards, communications with shareholders, and investor relations
- Our strategy-setting process
- The structure and composition of our Board
- Board oversight of risk management
- Our process for inducting new Directors and ensuring the professional development of all Board members
- Matters reserved for the Board
- How we ensure Board members are updated about important developments
- Retirement and re-election of Directors
- Remuneration of Directors for service on the Board and Board Committees
- The Board's Adviser
- Directors' independence
- Role of the Board Secretary
- Management Committees
- Internal controls
- Audit arrangements
- Internal audits, regulation and supervision
- Diversity
- Succession planning
- Codes, standards and communications
- Our Variable Pay Framework

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 statement of financial position of the combination (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 unaudited pro forma consolidated income statement for the year ended December 31, 2019 and December 31, 2018 which give effect to the merger and acquisition as if it had occurred on January 1, 2018, the unaudited pro forma consolidated statement of financial position as at December 31, 2018 which give effect to the merger and acquisition as if it had occurred on December 31, 2018 and the audited consolidated statement of financial position as at December 31, 2019.

The purpose of the pro forma financial information is to illustrate the material effects that ADCB and UNB merger with subsequent acquisition of AHB would have had on the historical consolidated statement of financial position and on the historical consolidated income statement. They are not representative of the financial situation and 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 statement of financial position and consolidated income statement addresses a hypothetical situation and, therefore may not give a true picture of the financial position of the Group. Furthermore, the pro forma financial information is only meaningful in conjunction with the historical consolidated financial statements of ADCB, UNB and AHB for the financial year ended December 31, 2018 and consolidated financial statements of the Group for the year ended December 31, 2019.

The pro forma financial information has been prepared based on figures extracted from the audited consolidated financial statements for the year ended December 31, 2019 and December 31, 2018 of ADCB, UNB and AHB, all prepared in line with International Financial Reporting Standards.

The pro forma financial information has been compiled based on the accounting policies of ADCB, being the accounting acquirer, as disclosed in its consolidated financial statements for the year ended December 31, 2019.

Under IFRS 3 Business Combinations, ADCB has been identified as the acquirer and the Group has adopted the acquisition method of accounting for the merger and acquisition and is required to fair value the assets, liabilities and contingent liabilities acquired at the date of acquisition and to reflect the difference between their fair value and the purchase consideration as goodwill or gain on acquisition. The fair value exercise (''purchase price allocation'') is not completed as at the date of this document.

Under the terms of the merger, ADCB issued 0.5966 ADCB shares for every UNB share, corresponding to a total of 1,641,501,087 new shares issued to UNB shareholders. Based on ADCB's closing share price of AED 9.88 on April 30, 2019, this translates to a consideration of AED 16,218 million.

AHB was acquired by the combined entity (ADCB and UNB) for a consideration of AED 1,000 million by issuing mandatory convertible bond which was converted to 117,647,058 post-merger ADCB shares.

The Group is in the process of undertaking comprehensive purchase price allocation which is expected to complete within twelve months from the date of business combinations and may result in different values being attributed to the assets, liabilities and contingent liabilities acquired than those that are shown in the pro forma financial information that may or may not result in significant variances.

ABU DHABI COMMERCIAL BANK PJSC

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	As at December 31 2019 audited AED'000	As at December 31 2018 unaudited AED'000
Assets		
Cash and balances with central banks, net	**24,904,966**	33,317,150
Deposits and balances due from banks, net	**23,064,974**	26,941,745
Reverse-repo placements	**–**	2,203,800
Trading securities	**–**	377,293
Derivative financial instruments	**6,789,717**	4,773,040
Investment securities	**73,440,113**	73,941,966
Loans and advances to customers, net	**250,017,326**	260,339,569
Investment in associates	**407,768**	394,359
Investment properties	**1,693,707**	2,528,424
Other assets, net	**16,750,208**	15,284,962
Property and equipment, net	**2,197,571**	2,003,879
Intangible assets, net	**5,332,497**	565,073
Assets held for sale	**535,830**	747,429
Total assets	**405,134,677**	423,418,689
Liabilities		
Due to banks	**5,732,779**	9,067,789
Derivative financial instruments	**6,949,891**	5,851,233
Deposits from customers	**262,093,782**	285,417,201
Euro commercial paper	**2,062,338**	3,279,302
Borrowings	**51,882,054**	50,232,395
Other liabilities	**20,302,794**	18,131,169
Liabilities related to assets held for sale	**413,395**	270,414
Total liabilities	**349,437,033**	372,249,503
Equity		
Share capital	**6,957,379**	6,839,732
Share premium	**17,878,882**	14,173,147
Other reserves	**9,257,919**	6,865,281
Retained earnings	**15,544,207**	14,328,461
Mandatory convertible bond	**–**	1,000,000
Capital notes	**6,000,000**	7,813,244
Equity attributable to equity holders of the Bank	**55,638,387**	51,019,865
Non-controlling interests	**59,257**	149,321
Total equity	**55,697,644**	51,169,186
Total liabilities and equity	**405,134,677**	423,418,689

ABU DHABI COMMERCIAL BANK PJSC

PRO FORMA CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 AED'000	2018 AED'000
Interest income	**15,560,811**	14,893,189
Interest expense	**(7,148,997)**	(6,165,952)
Net interest income	**8,411,814**	8,727,237
Income from Islamic financing	**3,126,268**	3,367,028
Islamic profit distribution	**(1,086,111)**	(995,883)
Net income from Islamic financing	**2,040,157**	2,371,145
Total net interest and Islamic financing income	**10,451,971**	11,098,382
Net fees and commission income	**1,995,950**	2,081,723
Net trading income	**525,773**	583,949
Net losses from investment properties	**(65,409)**	(293,008)
Other operating income	**303,676**	314,618
Operating income	**13,211,961**	13,785,664
Operating expenses (*)	**(5,235,072)**	(5,125,704)
Operating profit before impairment allowances	**7,976,889**	8,659,960
Impairment allowances	**(2,654,565)**	(2,435,857)
Operating profit after impairment allowances	**5,322,324**	6,224,103
Share in profit/(loss) of associates	**22,713**	(5,876)
Profit before taxation	**5,345,037**	6,218,227
Overseas income tax expense	**(56,678)**	(60,821)
Profit for the year from continuing operations	**5,288,359**	6,157,406
Loss from discontinued operations	**(44,178)**	(31,281)
Profit for the year	**5,244,181**	6,126,125
Attributable to:		
Equity holders of the Bank	**5,241,793**	6,131,218
Non-controlling interests	**2,388**	(5,093)
Profit for the year	**5,244,181**	6,126,125

(*) includes non-recurring expenses pertaining to integration and transaction costs of AED 346,112 thousand (for the year ended December 31, 2018: AED 46,199 thousand)

SEGMENTAL INFORMATION — OPERATING SEGMENTS

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	**1,111,891**	**530,715**	**389,335**	**8,216**	**2,040,157**
Total net interest and Islamic financing income	**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 expenses	**(3,162,601)**	**(1,523,406)**	**(373,364)**	**(175,701)**	**(5,235,072)**
Operating profit before impairment allowances	**2,470,077**	**2,721,449**	**2,700,528**	**84,835**	**7,976,889**
Impairment allowances	**(1,379,442)**	**(1,218,615)**	**(56,508)**	**–**	**(2,654,565)**
Operating profit after impairment allowances	**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 expense	**(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 (AUDITED)					
Allocated assets	**107,842,598**	**171,219,179**	**119,785,206**	**1,694,822**	**400,541,805**
Unallocated asset — goodwill recognised on business combinations					**4,592,872**
Total assets					**405,134,677**
Total liabilities	**85,941,571**	**128,805,940**	**134,561,783**	**127,739**	**349,437,033**

FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,696,363	2,998,429	1,974,537	57,908	8,727,237
Net income from Islamic financing	1,112,585	832,349	489,272	(63,061)	2,371,145
Total net interest and Islamic financing income	4,808,948	3,830,778	2,463,809	(5,153)	11,098,382
Non-interest income	1,063,263	1,203,539	437,882	(17,402)	2,687,282
Operating expenses	(3,072,044)	(1,507,625)	(380,676)	(165,359)	(5,125,704)
Operating profit/(loss) before impairment allowances	2,800,167	3,526,692	2,521,015	(187,914)	8,659,960
Impairment (allowances)/releases	(1,293,891)	(1,164,032)	22,066	–	(2,435,857)
Operating profit/(loss) after impairment allowances	1,506,276	2,362,660	2,543,081	(187,914)	6,224,103
Share in loss of associates	(5,876)	–	–	–	(5,876)
Profit/(loss) before taxation	1,500,400	2,362,660	2,543,081	(187,914)	6,218,227
Overseas income tax expense	(7,137)	(6,186)	(47,498)	–	(60,821)
Loss from discontinued operations	(31,283)	–	–	–	(31,281)
Profit/(loss) for the year	1,461,980	2,356,474	2,495,583	(187,914)	6,126,125
AS AT DECEMBER 31, 2018 (UNAUDITED)					
Allocated assets	111,354,630	176,149,714	132,896,781	2,471,291	422,872,416
Unallocated asset — goodwill recognised on business combinations					546,273
Total assets					423,418,689
Total liabilities	80,555,087	154,066,251	137,503,168	124,997	372,249,503

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Deloitte.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS
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, Abu Dhabi (the "Bank") which comprise the consolidated statement of financial position as at 31 December 2019, 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 Bank as at 31 December 2019, 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 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 Bank in accordance with 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 our audit of the Bank's 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 period. 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.

Estimation uncertainty with respect to the purchase price allocation for the merger with Union National Bank PJSC and acquisition of Al Hilal Bank PJSC

THE FINANCIAL STATEMENT RISK

The Bank acquired Union National Bank PJSC and Al Hilal Bank PJSC with effect from 1 May 2019 and accounted for these business combination transactions using the acquisition method of accounting. The purchase price allocation, which resulted in a goodwill of AED 4,593 million as at the date of acquisition, was still provisional as at 31 December 2019 because of the size and complexity of these transactions. Goodwill arising from the acquisitions and the relating carrying amounts of assets and liabilities will be adjusted on a retrospective basis upon the finalisation of the purchase price allocation process, which will be finalised by 30 April 2020 in accordance with IFRSs.

Fair values were determined using various valuation methodologies and techniques, which were applied to different assets, liabilities and contingent liabilities. Certain calculations were based on substantial management judgements and complex valuation models that required specific customer or market information, significant unobservable inputs and assumptions, especially with regard to the choice of the valuation method to be

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used and the inputs to be considered, which depend on current market environments and estimates over future developments. The Bank prepared its own assessments and, for certain assets, used external appraisals to determine the fair values of assets and liabilities acquired.

We considered this as a key audit matter because of the quantitative materiality of the transactions and the significant judgements and estimates made by management in determining the fair values of acquired assets and liabilities. Auditing these complex judgements and assumptions involves, inter alia, challenging auditor judgements and utilising our internal fair value specialists to assess the fair value of different types of assets, due to the nature and extent of audit evidence and effort required to address these matters.

For further information on this key audit matter refer to Note 3.6, 15 and 52 to the consolidated financial statements.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

We performed the following procedures on the preliminary purchase price allocation, which included, but was not limited, to the following:

- We assessed the design and implementation of controls over the transaction;
- We considered whether the transaction falls within the scope of IFRS 3 *Business Combinations* by assessing whether the assets acquired and liabilities assumed constitute a business and whether the transaction should be accounted for by applying the acquisition method;
- We verified that the results of the operations of the entities acquired were included in the consolidated financial statements of the Bank from the date of acquisition, as defined by IFRS 3;
- We evaluated the approach and key assumptions used in the Bank's fair value adjustments relative to the acquired portfolio of financial assets at amortised cost, in particular loans and advances to customers, and challenged management's judgements on specific customer or market related factors, such as expected default rates;
- We evaluated the accounting policy adopted by management for the identification of purchased or originated credit impaired financial assets (POCI) and assessed the adequacy of the recognition, presentation and measurement policy for these assets;
- We evaluated the identification and valuation of intangible assets based on our understanding of the businesses of the acquired entities, and discussed with the Bank the business rationale for the acquisitions and the Bank's external appraiser's valuation results;
- We engaged our internal valuation specialists to perform an assessment of the identified intangible assets and the determination of their respective fair values and useful lives;
- We assessed the competence, objectivity and capabilities of the external appraisers for the valuation of investment properties and owner-occupied properties engaged by the Bank and, for a sample of properties, engaged our internal specialists in assessing the valuation methodologies and reasonableness of underlying assumptions; and
- We assessed the disclosures included in Note 52 against the relevant IFRS disclosure requirements.

Estimation uncertainty with respect to expected credit losses for loans and advances to customers

THE FINANCIAL STATEMENT RISK

As described in Notes 10 and 42 to the consolidated financial statements, the Bank had loans and advances of AED 250 billion as at 31 December 2019 representing 61.7% of total assets. The determination of the Bank's expected credit losses for loans and advances to customers measured at amortised cost is considered a key audit matter given the magnitude of the account balance and as it is a material and complex estimate requiring significant management judgement in the evaluation of the credit quality and the estimation of inherent losses in the portfolio.

The financial statement risk arises from several aspects requiring substantial judgement of management, such as the estimation of expected future cash flows, the determination of significant increases in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and assumptions as well as consideration of post model adjustments. In calculating expected credit losses, the Bank considered credit quality indicators for each loan and portfolios, stratifies loans and advances by risk grades and estimates losses for each loan based upon their nature and risk profile.

For further information on the accounting policies relating to impairment of loans and advances as well as the Bank's management of credit risk refer to Note 3.8 and Note 42 to the consolidated financial statements.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

We established an audit approach which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls focused on the governance over the process controls around the ECL methodology, completeness and accuracy of loan data used in the expected loss models, management review of outcomes, management validation and approval processes, the assignment of borrowers' risk classification, consistency of application of accounting policies and the process for calculating individual allowances.

The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following:

- For a risk-based sample of individually assessed loans, we performed a credit review, assessed the appropriateness of information for evaluating the credit-worthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery as well as considered the consistency of the Bank's application of its impairment policy. Further, we evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for loan impairment allowances;
- For loans tested collectively, we evaluated controls over the modelling process, including model monitoring, model outputs, and approval. With the involvement of our modelling specialists, we tested the mathematical accuracy and computation of the expected credit losses by re-performing or independently calculating elements of the expected credit losses based on relevant source data and methodology documents. We challenged key assumptions and the expected credit loss policy. We evaluated key assumptions such as the thresholds used to determine SICR and forward looking and macroeconomic information and the weighting of each economic scenario;
- With the support of our credit risk and modelling specialists, we evaluated the reasonableness of post model adjustments and management overlays and challenged their rationale;
- We tested, utilising our internal IT specialists, the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

Risk of inappropriate access or changes to information technology systems

THE FINANCIAL STATEMENT RISK

The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks.

Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data.

Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as key audit matter.

For further information on this key audit matter refer to Note 41.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit.

For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting:

- IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons;
- Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank;
- Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof;
- Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;
- Program developers approval rights in the modification process and their capability to carry out any modifications in the productive versions of applications, databases and operating systems. We analysed the segregation of duties on critical trading and payment systems in order to assess whether the segregation between front and back office was effective; and
- We performed journal entry testing as stipulated by the International Standards on Auditing.

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 those charged with governance.

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 their preparation in compliance with the applicable provisions of 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Board Audit & Compliance Committee are responsible for overseeing the Bank'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 ISAs 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 scepticism 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 Bank'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 Bank'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 Bank to cease to continue as a going concern.
- 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 of the Bank 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 the Bank's Board Audit & Compliance Committee, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the UAE Federal Law No. (2) of 2015, we report that:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- Note 40 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2019;
- Note 36 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- 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 2019 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 financial position as at 31 December 2019; and
- Note 52 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2019.

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 2019:

- 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.

Deloitte & Touche (M.E.)



Mohammad Khamees Al Tah
Registration No. 717
26 January 2020
Abu Dhabi
United Arab Emirates

ABU DHABI COMMERCIAL BANK PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	Notes	As at December 31 2019 AED'000	As at December 31 2018 AED'000	As at December 31 2019 USD'000
Assets				
Cash and balances with central banks, net	5	**24,904,966**	19,589,957	**6,780,552**
Deposits and balances due from banks, net	6	**23,064,974**	19,627,076	**6,279,601**
Reverse-repo placements	7	**–**	2,203,800	**–**
Trading securities		**–**	60,134	**–**
Derivative financial instruments	8	**6,789,717**	4,447,247	**1,848,548**
Investment securities	9	**73,440,113**	52,362,234	**19,994,586**
Loans and advances to customers, net	10	**250,017,326**	166,425,762	**68,068,970**
Investment in associates	11	**407,768**	205,158	**111,018**
Investment properties	12	**1,693,707**	576,671	**461,124**
Other assets, net	13	**16,750,208**	13,330,894	**4,560,360**
Property and equipment, net	14	**2,197,571**	982,605	**598,304**
Intangible assets, net	15	**5,332,497**	18,800	**1,451,810**
Assets held for sale	34	**535,830**	–	**145,883**
Total assets		**405,134,677**	279,830,338	**110,300,756**
Liabilities				
Due to banks	16	**5,732,779**	3,071,408	**1,560,789**
Derivative financial instruments	8	**6,949,891**	5,695,911	**1,892,157**
Deposits from customers	17	**262,093,782**	176,653,857	**71,356,870**
Euro commercial paper	18	**2,062,338**	3,279,302	**561,486**
Borrowings	19	**51,882,054**	43,027,749	**14,125,253**
Other liabilities	20	**20,302,794**	15,296,568	**5,527,577**
Liabilities related to assets held for sale	34	**413,395**	–	**112,550**
Total liabilities		**349,437,033**	247,024,795	**95,136,682**
Equity				
Share capital	21	**6,957,379**	5,198,231	**1,894,195**
Share premium		**17,878,882**	2,419,999	**4,867,651**
Other reserves	22	**9,257,919**	6,859,271	**2,520,534**
Retained earnings		**15,544,207**	14,328,042	**4,232,019**
Capital notes	25	**6,000,000**	4,000,000	**1,633,542**
Equity attributable to equity holders of the Bank		**55,638,387**	32,805,543	**15,147,941**
Non-controlling interests		**59,257**	–	**16,133**
Total equity		**55,697,644**	32,805,543	**15,164,074**
Total liabilities and equity		**405,134,677**	279,830,338	**110,300,756**

These consolidated financial statements were duly approved by delegated members of the Board of Directors and authorised for issue on January 26, 2020 and signed on its behalf by:



Eissa Al Suwaidi
Chairman



Ala'a Eraiqat
Group Chief Executive Officer



Deepak Khullar
Group Chief Financial Officer

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

ABU DHABI COMMERCIAL BANK PJSC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019(*) AED'000	2018 AED'000	2019 USD'000
Interest income	26	**13,877,686**	10,314,941	**3,778,298**
Interest expense	27	**(6,364,907)**	(4,202,662)	**(1,732,891)**
Net interest income		**7,512,779**	6,112,279	**2,045,407**
Income from Islamic financing	23	**2,495,966**	1,276,746	**679,544**
Islamic profit distribution	23	**(767,609)**	(169,901)	**(208,987)**
Net income from Islamic financing		**1,728,357**	1,106,845	**470,557**
Total net interest and Islamic financing income		**9,241,136**	7,219,124	**2,515,964**
Net fees and commission income	28	**1,816,162**	1,394,576	**494,462**
Net trading income	29	**460,909**	431,805	**125,486**
Net losses from investment properties	12	**(66,736)**	(56,459)	**(18,169)**
Other operating income	30	**270,669**	192,399	**73,692**
Operating income		**11,722,140**	9,181,445	**3,191,435**
Operating expenses	31	**(4,517,679)**	(3,083,501)	**(1,229,970)**
Operating profit before impairment allowances		**7,204,461**	6,097,944	**1,961,465**
Impairment allowances	32	**(2,352,054)**	(1,265,787)	**(640,363)**
Operating profit after impairment allowances		**4,852,407**	4,832,157	**1,321,102**
Share in profit of associates	11	**17,765**	10,070	**4,836**
Profit before taxation		**4,870,172**	4,842,227	**1,325,938**
Overseas income tax expense		**(40,926)**	(2,373)	**(11,142)**
Profit for the year from continuing operations		**4,829,246**	4,839,854	**1,314,796**
Loss from discontinued operations	34	**(36,759)**	–	**(10,008)**
Profit for the year		**4,792,487**	4,839,854	**1,304,788**
Attributable to:				
Equity holders of the Bank		**4,789,686**	4,839,854	**1,304,026**
Non-controlling interests		**2,801**	–	**762**
Profit for the year		**4,792,487**	4,839,854	**1,304,788**
Basic and diluted earnings per share (AED)	33	**0.71**	0.90	**0.19**

(*) Refer Note 3.1 for basis of preparation

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

ABU DHABI COMMERCIAL BANK PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019(*) AED'000	2018 AED'000	2019 USD'000
Profit for the year	**4,792,487**	4,839,854	**1,304,788**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 22)	**32,889**	(21,054)	**8,954**
Net movement in cash flow hedge reserve (Note 22)	**171,505**	41,592	**46,693**
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 22)	**1,277,703**	(726,006)	**347,864**
	1,482,097	(705,468)	**403,511**
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 22)	**(50,616)**	(92,693)	**(13,781)**
Actuarial gains on defined benefit obligation (Note 20)	**16,773**	13,157	**4,567**
	(33,843)	(79,536)	**(9,214)**
Other comprehensive income/(loss) for the year	**1,448,254**	(785,004)	**394,297**
Total comprehensive income for the year	**6,240,741**	4,054,850	**1,699,085**
Attributable to:			
Equity holders of the Bank	**6,235,518**	4,054,850	**1,697,663**
Non-controlling interests	**5,223**	–	**1,422**
Total comprehensive income for the year	**6,240,741**	4,054,850	**1,699,085**

(*) Refer Note 3.1 for basis of preparation

The accompanying notes are 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, 2019

	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, 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 21)	**1,759,148**	**15,458,883**	**–**	**–**	**–**	**17,218,031**	**–**	**17,218,031**
Addition on business combinations (Note 52)	**–**	**–**	**–**	**–**	**3,836,500**	**3,836,500**	**54,783**	**3,891,283**
Profit for the year	**–**	**–**	**–**	**4,789,686**	**–**	**4,789,686**	**2,801**	**4,792,487**
Other comprehensive income for the year (Note 22)	**–**	**–**	**1,429,059**	**16,773**	**–**	**1,445,832**	**2,422**	**1,448,254**
Transfer to statutory and legal reserve (Note 49)	**–**	**–**	**957,936**	**(957,936)**	**–**	**–**	**–**	**–**
Other movements (Note 22)	**–**	**–**	**11,653**	**18**	**–**	**11,671**	**–**	**11,671**
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 22)	**–**	**–**	**–**	**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 25)	**–**	**–**	**–**	**–**	**(1,836,500)**	**(1,836,500)**	**–**	**(1,836,500)**
Dividends paid to equity holders of the Bank (Note 21)	**–**	**–**	**–**	**(2,391,186)**	**–**	**(2,391,186)**	**–**	**(2,391,186)**
Capital notes coupon paid (Note 33)	**–**	**–**	**–**	**(265,056)**	**–**	**(265,056)**	**–**	**(265,056)**
As at December 31, 2019 (*)	**6,957,379**	**17,878,882**	**9,257,919**	**15,544,207**	**6,000,000**	**55,638,387**	**59,257**	**55,697,644**
As at January 1, 2018 (as previously reported)	5,198,231	2,419,999	7,484,927	13,341,783	4,000,000	32,444,940	–	32,444,940
Effect of change in accounting policy for IFRS 9	–	–	149,349	(1,510,228)	–	(1,360,879)	–	(1,360,879)
As at January 1, 2018 (restated)	5,198,231	2,419,999	7,634,276	11,831,555	4,000,000	31,084,061	–	31,084,061
Profit for the year	–	–	–	4,839,854	–	4,839,854	–	4,839,854
Other comprehensive loss for the year (Note 22)	–	–	(798,161)	13,157	–	(785,004)	–	(785,004)
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 22)	–	–	–	1,588	–	1,588	–	1,588
Other movements (Note 22)	–	–	23,156	(66)	–	23,090	–	23,090
Dividends paid to equity holders of the Bank	–	–	–	(2,183,257)	–	(2,183,257)	–	(2,183,257)
Capital notes coupon paid (Note 33)	–	–	–	(174,789)	–	(174,789)	–	(174,789)
As at December 31, 2018 (*)	5,198,231	2,419,999	6,859,271	14,328,042	4,000,000	32,805,543	–	32,805,543

(*) Refer Note 3.1 for basis of preparation

For the year ended December 31, 2019, the Board of Directors has proposed to pay a cash dividend representing 38% of the paid up capital (Note 21).

The accompanying notes 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, 2019

	2019(*) AED'000	2018 AED'000	2019 USD'000
OPERATING ACTIVITIES			
Profit before taxation including loss from discontinued operations (Note 34)	**4,833,454**	4,842,227	**1,315,942**
Adjustments for:			
Depreciation on property and equipment	**367,059**	175,927	**99,934**
Amortisation of intangible assets (Note 15)	**64,175**	–	**17,472**
Net losses from investment properties (Note 12)	**66,736**	56,459	**18,169**
Impairment allowances	**2,611,404**	1,483,876	**710,973**
Share in profit of associates (Note 11)	**(17,765)**	(10,070)	**(4,837)**
Discount unwind	**(232,051)**	(19,380)	**(63,178)**
Net losses from disposal of investment securities (Note 30)	**820**	10,474	**223**
Interest income on investment securities	**(2,385,551)**	(1,663,637)	**(649,483)**
Dividend income (Note 30)	**(13,191)**	(1,722)	**(3,591)**
Interest expense on borrowings and euro commercial paper	**1,817,590**	1,437,105	**494,852**
Net gains from trading securities (Note 29)	**(815)**	(11,052)	**(222)**
Ineffective portion of hedges — losses/(gains) (Note 8)	**46,633**	(16,012)	**12,696**
Employees' incentive plan expense (Note 24)	**11,671**	23,090	**3,178**
Cash flows from operating activities before changes in operating assets and liabilities	**7,170,169**	6,307,285	**1,952,128**
Decrease in balances with central banks	**1,011,166**	–	**275,297**
Increase in due from banks	**(449,647)**	(5,075,891)	**(122,420)**
Net movement in derivative financial instruments	**50,627**	(86,671)	**13,784**
Net disposals of trading securities	**60,949**	436,219	**16,594**
Increase in loans and advances to customers	**(1,602,510)**	(5,724,086)	**(436,294)**
Decrease/(increase) in other assets	**178,656**	(393,940)	**48,640**
(Decrease)/increase in due to banks	**(1,958,908)**	473,116	**(533,326)**
(Decrease)/increase in deposits from customers	**(9,742,010)**	13,575,599	**(2,652,331)**
(Decrease)/increase in other liabilities	**(634,724)**	352,496	**(172,808)**
Net cash (used in)/from operations	**(5,916,232)**	9,864,127	**(1,610,736)**
Overseas income tax paid	**(33,906)**	(968)	**(9,231)**
Net cash (used in)/from operating activities	**(5,950,138)**	9,863,159	**(1,619,967)**
INVESTING ACTIVITIES			
Net proceeds from redemption/disposal of investment securities	**30,940,003**	25,222,247	**8,423,634**
Net purchases of investment securities	**(29,737,663)**	(29,504,274)	**(8,096,287)**
Interest received on investment securities	**2,574,043**	1,785,592	**700,801**
Dividend received from investment securities (Note 30)	**13,191**	1,722	**3,591**
Dividend received from associates (Note 11)	**14,194**	10,284	**3,864**
Addition on business combinations (Note 52)	**11,037,392**	–	**3,005,007**
Disposal of investment properties (Note 12)	**6,276**	1,650	**1,709**
Net purchases of property and equipment	**(273,344)**	(198,436)	**(74,420)**
Net cash from/(used in) investing activities	**14,574,092**	(2,681,215)	**3,967,899**
FINANCING ACTIVITIES			
Net (decrease)/increase in euro commercial paper (Note 18)	**(1,257,754)**	324,195	**(342,432)**
Net proceeds from borrowings (Note 19)	**18,012,653**	20,109,045	**4,904,071**
Repayment of borrowings	**(19,799,050)**	(17,105,210)	**(5,390,430)**
Interest paid on borrowings and euro commercial paper	**(1,236,577)**	(868,623)	**(336,667)**
Payment of lease liabilities	**(89,064)**	–	**(24,248)**
Dividends paid to equity holders of the Bank	**(2,391,186)**	(2,183,257)	**(651,018)**
Repayment of capital notes (Note 25)	**(1,836,500)**	–	**(500,000)**
Capital notes coupon paid (Note 33)	**(265,056)**	(174,789)	**(72,163)**
Net cash (used in)/from financing activities	**(8,862,534)**	101,361	**(2,412,887)**
Net (decrease)/increase in cash and cash equivalents	**(238,580)**	7,283,305	**(64,955)**
Cash and cash equivalents at the beginning of the year (Note 35)	**23,094,853**	15,811,548	**6,287,736**
Cash and cash equivalents at the end of the year (Note 35)	**22,856,273**	23,094,853	**6,222,781**

(*) Refer Note 3.1 for basis of preparation

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

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 owns 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)

In the current year, the Group applied for the first time, IFRS 16 Leases. As required by IAS 1 Presentation of Financial Statements, the nature and effect of these changes are disclosed in Note 3.7 of the consolidated financial statements.

The Group has also 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, 2019. 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.

- Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation
- Amendment to IAS 19 Employee Benefits
- Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2019.

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
Amendments to references to the Conceptual Framework in IFRS Standards — amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendment to IFRS 3 regarding the definition of business.	January 1, 2020
Amendments to IAS 1 and IAS 8 regarding the definition of materiality.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 — Interest Rate Benchmark Reform	January 1, 2020
IFRS 17 Insurance Contracts which requires insurance liabilities to be measured at a current fulfilment 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, 2022.	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.

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.

UPDATE ON PROSPECTIVE CHANGES IN REFERENCE RATES (IBOR)

The impact of the replacement of interbank offered rates ("Ibors") with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group have a significant and growing volume of contracts referencing Ibors, such as Libor and Eibor, extending past 2021 when it is likely that these Ibors will cease being published. The management has started a project to coordinate the Group's transition activities aims to minimise the volume of such contracts outstanding upon the cessation of these Ibors, and therefore the associated disruption to financial flows and potential economic losses. The project is significant in terms of scale and complexity and will impact multiple products, currencies, systems and processes. The process of adopting new reference rates exposes the Group to operational and financial risks such as earnings volatility resulting from contract modifications and changes in hedge accounting. The Group continue to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

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 comprise of results for the year ended December 31, 2019 for ADCB and its subsidiaries and the results for the eight month period ended December 31, 2019 for erstwhile UNB (including its subsidiaries) and AHB group while the comparatives are of ADCB only.

Certain disclosure notes have been 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, still it 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.

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.

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. 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 52) 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 CHANGE IN ACCOUNTING POLICY

GENERAL IMPACT OF APPLICATION OF IFRS 16 LEASES

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases-Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

IFRS introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Group is January 1, 2019. The Group has applied IFRS 16 using simplified modified approach. Management has assessed that the impact of adoption of IFRS 16 on the Group's consolidated financial statements is not material.

IMPACT ON LESSEE ACCOUNTING

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before January 1, 2019. The lease liability for such leases are measured at the present value of the remaining lease payments using the incremental borrowing rate as of January 1, 2019.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Group has applied a single discount rate to portfolio of leases, as the leases are of reasonably similar characteristics.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 as at January 1, 2019:

	Carrying amount December 31, 2018 AED'000	Re-measurement AED'000	IFRS 16 Carrying amount January 1, 2019 AED'000
Property and equipment	982,605	141,722	1,124,327
Other assets — Prepayments	78,314	(10,764)	67,550
Impact on total assets		130,958	
Other liabilities — Lease liabilities	–	130,958	130,958
Impact on total liabilities		130,958	

The following is a reconciliation of total operating lease commitments as at December 31, 2018 (as disclosed in the financial statements of December 31, 2018) to the lease liabilities recognised at January 1, 2019:

	AED'000
Total operating lease commitments as at December 31, 2018	152,170
Recognition exemptions:	
Lease of low value assets	–
Lease with remaining lease term of less than 12 months	(9,825)
Operating lease liabilities before discounting	142,345
Discounted using incremental borrowing rate	3.5% p.a.
Total lease liabilities recognised under IFRS 16 as at January 1, 2019	**130,958**

IMPACT ON LESSOR ACCOUNTING

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance lease or operating lease and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

ACCOUNTING POLICIES FOR ACCOUNTING OF LEASES TILL DECEMBER 31, 2018

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

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

Group as a 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.

ACCOUNTING POLICIES INTRODUCED ON ADOPTION OF IFRS 16

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 used this practical expedient.

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.

3.8 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:

(i) 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;

(ii) 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, 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 results in reclassifying the Group's financial assets. Changes in contractual cash 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 42 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;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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 unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(f) PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS

The Group measures expected credit loss on a lifetime basis for purchased or originated credit impaired financial assets (POCI) 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 42 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 42.

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 back-stop 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 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 balance sheet 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 22).

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 40. 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 29).

3.17 HEDGE ACCOUNTING

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ("fair value hedges"); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ("cash flow hedges"); or (iii) a hedge of a net investment in a foreign operation ("net investment hedges"). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the 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. 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 profit or loss.

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 profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

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 (Note 29).

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) in 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, 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 to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the 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 33).

3.29 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 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.

3.30 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 38 on Business Segment reporting.

3.31 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.

3.32 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.

3.33 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 reflects 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 42 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 40. 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 12.

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 and this 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 recognised 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 recognise 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.
- 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.

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. Such valuations are sensitive to changes in one or more unobservable inputs which are considered reasonably possible within the next financial year.

5. Cash and balances with central banks, net

	As at December 31, 2019 AED'000	As at December 31, 2018 AED'000
Cash on hand	**1,830,228**	1,499,000
Balances with central banks	**2,854,588**	3,404,794
Reserves maintained with central banks	**15,379,030**	11,004,968
Certificate of deposits with central banks	**4,841,367**	3,673,000
Reverse-repo with Central Bank	**–**	8,423
Gross cash and balances with central banks	**24,905,213**	19,590,185
Less: Allowance for impairment (Note 42.3)	**(247)**	(228)
Total cash and balances with central banks, net	**24,904,966**	19,589,957
The geographical concentration is as follows:		
Within the UAE	**24,120,803**	19,534,940
Outside the UAE	**784,410**	55,245
	24,905,213	19,590,185
Less: Allowance for impairment (Note 42.3)	**(247)**	(228)
	24,904,966	19,589,957

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.

6. Deposits and balances due from banks, net

	As at December 31, 2019 AED'000	As at December 31, 2018 AED'000
Nostro balances	**1,151,543**	1,913,798
Margin deposits	**1,315,686**	256,474
Time deposits	**5,616,585**	6,888,240
Wakala placements	**3,305,700**	3,579,525
Loans and advances to banks	**11,725,422**	7,023,366
Gross deposits and balances due from banks	**23,114,936**	19,661,403
Less: Allowance for impairment (Note 42.3)	**(49,962)**	(34,327)
Total deposits and balances due from banks, net	**23,064,974**	19,627,076
The geographical concentration is as follows:		
Within the UAE	**8,013,181**	8,730,693
Outside the UAE	**15,101,755**	10,930,710
	23,114,936	19,661,403
Less: Allowance for impairment (Note 42.3)	**(49,962)**	(34,327)
	23,064,974	19,627,076

7. Reverse-repo placements

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Banks and financial institutions	–	2,203,800
Total reverse-repo placements	–	2,203,800
The geographical concentration is as follows:		
Within the UAE	–	2,020,150
Outside the UAE	–	183,650
	–	2,203,800

The Group enters into reverse repurchase agreements under which bonds with fair value of AED Nil (December 31, 2018 — bonds with fair value of AED 2,271,007 thousand) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remains with the counterparties. The terms and conditions of these collaterals are governed by Global Master Repurchase Agreements (GMRA).

8. 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:

(a) 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");

(b) 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

(c) 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 fulfil 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.

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.

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, 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**
As at December 31, 2018			
Derivatives held or issued for trading			
Foreign exchange derivatives	719,659	440,214	268,624,410
Interest rate and cross currency swaps	2,548,601	2,516,720	232,645,162
Interest rate and commodity options	524,402	593,051	49,190,144
Forward rate agreements	9	303	1,100,000
Futures (exchange traded)	56	275	1,212,100
Commodity and energy swaps	107,552	92,133	3,105,642
Swaptions	176,872	173,068	45,421,133
Total derivatives held or issued for trading	4,077,151	3,815,764	601,298,591
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	347,962	1,645,460	70,385,718
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	17,923	154,190	5,479,207
Forward foreign exchange contracts	4,211	80,497	18,445,248
Total derivatives held as cash flow hedges	22,134	234,687	23,924,455
Total derivative financial instruments	4,447,247	5,695,911	695,608,764

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

The net hedge ineffectiveness (losses)/gains recognised in the consolidated income statement are as follows:

	2019 AED'000	2018 AED'000
Net change in the fair value of the hedged items attributable to risk hedged	**(997,113)**	978,821
Net change in the fair value of the hedging instruments	**950,115**	(962,809)
Fair value hedging ineffectiveness — (losses)/gains	**(46,998)**	16,012
Add: Cash flow hedging ineffectiveness — gains	**365**	–
Net hedge ineffectiveness (losses)/gains	**(46,633)**	16,012

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	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	Total AED'000
2019	**30,421**	**64,672**	**34,141**	**25,633**	**154,868**
2018	(19,388)	(16,314)	3,001	(8,860)	(41,561)

As at December 31, 2019, the Group received cash collateral of AED 758,274 thousand (December 31, 2018 — AED 207,554 thousand) and bonds with fair value of AED 186,117 thousand (December 31, 2018 — AED 26,847 thousand) against positive fair value of derivative assets.

As at December 31, 2019, the Group placed cash collateral of AED 1,315,686 thousand (December 31, 2018 — AED 275,060 thousand) and bonds of AED 1,956,945 thousand (December 31, 2018 — AED 2,317,131 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.

9. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2019				
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**	**–**	**35,106**	**218,183**
Mutual funds	**–**	**1,615**	**580**	**2,195**
Total unquoted	**3,692,891**	**176,213**	**169,912**	**4,039,016**
Total investment securities	**34,401,462**	**19,282,771**	**19,755,880**	**73,440,113**

(*) Gulf Cooperation Council

(**) Includes investments in perpetual bonds issued by other banks

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2018				
Quoted:				
Government securities	4,934,961	9,028,003	9,022,797	22,985,761
Bonds — Public sector	6,918,084	1,019,842	4,308,028	12,245,954
Bonds — Banks and financial institutions	3,525,733	798,208	4,009,956	8,333,897
Bonds — Corporate	604,407	174,855	271,557	1,050,819
Equity instruments	333	–	–	333
Mutual funds	68,136	–	81,767	149,903
Total quoted	16,051,654	11,020,908	17,694,105	44,766,667
Unquoted:				
Government securities	7,210,099	–	–	7,210,099
Bonds — Banks and financial institutions	–	133,625	–	133,625
Equity instruments	241,654	–	10,189	251,843
Total unquoted	7,451,753	133,625	10,189	7,595,567
Total investment securities	23,503,407	11,154,533	17,704,294	52,362,234

(*) Gulf Cooperation Council

As at December 31, 2019, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 260,417 thousand (December 31, 2018 — AED 183,435 thousand) (Note 42.3) 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, 2019 was AED 1,010,614 thousand (December 31, 2018 — net negative fair value AED 85,541 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, 2019		As at December 31, 2018	
	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	**1,041,439**	**851,056**	240,856	228,653

Further, the Group pledged investment securities with fair value amounting to AED 1,964,034 thousand (December 31, 2018 — AED 2,333,615 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

10. Loans and advances to customers, net

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Overdrafts (retail and corporate)	**12,682,973**	5,091,419
Retail loans	**48,824,706**	26,296,282
Corporate loans	**180,835,988**	131,833,632
Credit cards	**4,970,067**	4,461,828
Other facilities	**10,037,002**	5,469,473
Gross loans and advances to customers	**257,350,736**	173,152,634
Less: Allowance for impairment (Note 42.3)	**(7,333,410)**	(6,726,872)
Total loans and advances to customers, net	**250,017,326**	166,425,762

For Islamic financing assets included in the above table, refer Note 23.

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, 2019 was AED 28,252 thousand (December 31, 2018 — net negative fair value of AED 60,106 thousand).

11. Investment in associates

Investment in associates has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

	AED'000
As at January 1, 2018	205,372
Share in profit of associate	10,070
Dividend received from associate	(10,284)
As at January 1, 2019	**205,158**
Addition on business combinations (Note 52)	**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**

Details of the investment in associates as at December 31, 2019 are as follows:

	Effective ownership interest			
Name of associate	2019	2018	Country of incorporation	Principal activities
Four N Property LLC	**35.00%**	35.00%	UAE	Residential facilities for lower income group.
Orient UNB Takaful PJSC	**47.54%**	–	UAE	General insurance services.
Arab Orient Takaful Insurance Company	**19.32%**	–	Egypt	General insurance services.
Al Hilal Global Sukuk Fund	**31.89%**	–	UAE	Investment activities.
Al Hilal GCC Equity Fund	**48.99%**	–	UAE	Investment activities.
Al Hilal Global Balance Fund	**76.43%**	–	UAE	Investment activities.

For balances and transactions with associates, refer Note 36.

12. Investment properties

	AED'000
As at January 1, 2018	634,780
Disposal during the year	(1,900)
Revaluation of investment properties	(56,209)
As at January 1, 2019	**576,671**
Addition on business combinations (Note 52)	**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**

For the year 2019, net losses from investment properties include net gains of AED 417 thousand (2018: loss of AED 250 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.

Details of rental income and direct operating expenses relating to investment properties during the year are as follows:

	2019 AED'000	2018 AED'000
Rental income	**82,563**	41,328
Direct operating expenses	**24,236**	8,079

LEASE RECEIVABLES

GROUP AS LESSOR

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.

	2019 AED'000	2018 AED'000
Non-cancellable operating lease receivables		
Not later than one year	**33,210**	23,789
Later than one year but not later than five years	**22,811**	25,342
Later than five years	**23,271**	27,463
Total non-cancellable operating lease receivables	**79,292**	76,594

13. Other assets, net

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Interest receivable	**3,286,001**	2,229,084
Advance tax	**3,451**	5,597
Prepayments	**139,116**	78,314
Acceptances (Note 20)	**12,726,229**	10,531,047
Others	**614,693**	501,081
Gross other assets	**16,769,490**	13,345,123
Less: Allowance for impairment (Note 42.3)	**(19,282)**	(14,229)
Total other assets, net	**16,750,208**	13,330,894

14. 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, 2018	872,782	191,420	213,297	1,047,216	76,853	–	2,401,568
Exchange difference	(277)	(9)	(201)	(475)	(97)	–	(1,059)
Additions during the year	–	231	436	813	198,421	–	199,901
Transfers	16,817	16,178	12,483	149,123	(194,601)	–	–
Transfer to expenses	–	–	–	–	(970)	–	(970)
Disposals during the year	–	(11)	(623)	(78)	–	–	(712)
As at January 1, 2019	**889,322**	**207,809**	**225,392**	**1,196,599**	**79,606**	**–**	**2,598,728**
Addition on business combinations (Note 52)	**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 (Note 3.7)	**–**	**–**	**–**	**–**	**–**	**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	**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**
Accumulated depreciation							
As at January 1, 2018	401,515	146,074	174,317	719,566	–	–	1,441,472
Exchange difference	(86)	(2)	(134)	(381)	–	–	(603)
Charge for the year (Note 31)	36,626	12,135	14,107	113,059	–	–	175,927
Disposals during the year	–	(11)	(594)	(68)	–	–	(673)
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 31)	**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**
Carrying amount							
As at December 31, 2019	**1,052,019**	**166,616**	**76,396**	**503,505**	**155,027**	**244,008**	**2,197,571**
As at December 31, 2018	451,267	49,613	37,696	364,423	79,606	–	982,605

15. Intangible assets, net

		Other intangible assets			
	Goodwill AED'000	Trade mark and license AED'000	Core deposits AED'000	Customer relationships AED'000	Total AED'000
Cost or valuation					
As at January 1, 2019	**18,800**	**–**	**–**	**–**	**18,800**
Recognised on business combinations (Note 52)	**4,592,872**	**244,000**	**457,000**	**84,000**	**5,377,872**
As at December 31, 2019	**4,611,672**	**244,000**	**457,000**	**84,000**	**5,396,672**
Accumulated amortisation					
As at January 1, 2019	**–**	**–**	**–**	**–**	**–**
Amortisation during the period (Note 31)	**–**	**–**	**54,004**	**10,171**	**64,175**
As at December 31, 2019	**–**	**–**	**54,004**	**10,171**	**64,175**
Carrying amount					
As at December 31, 2019	**4,611,672**	**244,000**	**402,996**	**73,829**	**5,332,497**
As at December 31, 2018	18,800	–	–	–	18,800

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 a stock transaction. The merged entity subsequently completed 100% acquisition of Al Hilal Bank PJSC (or "AHB"). Based on the preliminary fair valuation and 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 4,592,872 thousand as goodwill. As the purchase price allocation exercise is expected to complete within twelve months from the date of business combinations, it is possible that different values may be attributed to the assets, liabilities and contingent liabilities acquired, and hence, there can be a change in the value of goodwill recognised on merger and acquisition (Refer Note 52 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 key guidance offered by the standard is that CGU selection will be influenced by "how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations".

Management has identified four CGUs for which the residual Goodwill will be allocated and performance monitored by management. The four CGUs are consistent with the operating segments of ADCB determined in accordance with IFRS 8 Operating Segments. The CGUs are as follows:

- Wholesale banking
- Consumer banking
- Investments and treasury and
- Property management

However, the allocation logic will be finalised in the first quarter of 2020 (within the measurement period) and currently the testing is based on overall cost synergies achieved by ADCB against the initial integration plan. After the allocation logic is finalised, impairment assessment will be based on cost synergies achieved by each CGU.

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, 2019 (2018 — AED Nil).

OTHER INTANGIBLE ASSETS

Trade mark and license	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	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	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	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.

Intangible asset	Useful life
Customer relationships	3 to 6 years
Core deposit intangible	4.5 to 7 years
Trade mark and license	Indefinite

16. Due to banks

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Vostro balances	**1,739,098**	870,881
Margin deposits	**460,583**	200,090
Time deposits	**3,533,098**	2,000,437
Total due to banks	**5,732,779**	3,071,408

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, 2019 was AED 14,719 thousand (December 31, 2018 — net negative fair value of AED 3,008 thousand).

17. Deposits from customers

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Time deposits	**157,307,229**	95,078,854
Current account deposits	**78,022,123**	54,855,845
Savings deposits	**21,873,206**	13,534,209
Murabaha deposits	**2,490,166**	11,549,497
Long-term government deposits	**351,702**	377,014
Margin deposits	**2,049,356**	1,258,438
Total deposits from customers	**262,093,782**	176,653,857

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer Note 23.

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, 2019 was AED 52,648 thousand (December 31, 2018 — net negative fair value of AED 40,044 thousand).

18. Euro commercial paper

The details of euro commercial paper ("ECP") issuances under the Bank's ECP programme are as follows:

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Currency		
US dollar (USD)	**889,733**	2,338,833
Arab Emirati Dirham (AED)	**199,789**	–
Euro (EUR)	**404,553**	715,882
Swiss franc (CHF)	**247,332**	–
GB pound (GBP)	**320,931**	224,587
Total euro commercial paper	**2,062,338**	3,279,302

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, 2019 was AED 6,060 thousand (December 31, 2018 — net negative fair value of AED 34,895 thousand).

The effective interest rate on ECPs issued ranges between negative 0.439% p.a. to positive 3.189% p.a. (December 31, 2018 — between negative 0.164% p.a. to positive 3.23% p.a.).

Reconciliation of ECP movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2018	2,909,845
Net proceeds from issuances	8,438,096
Repayments	(8,113,901)
Other movements	45,262
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 include effects of changes in foreign exchange rates. Other movements include discount amortised.

19. Borrowings

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.

The details of borrowings as at December 31, 2018 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)	649,799	78,613	723,569	372,866	1,824,847
	Chinese renminbi (CNH)	379,195	130,085	64,709	–	573,989
	Euro (EUR)	167,632	219,047	–	83,532	470,211
	Swiss franc (CHF)	–	298,691	648,917	373,533	1,321,141
	Japanese yen (JPY)	50,092	83,592	–	–	133,684
	Hong Kong dollar (HKD)	–	297,650	179,361	71,798	548,809
	US dollar (USD)	5,308,791	3,772,456	3,137,192	11,479,505	23,697,944
		6,555,509	4,880,134	4,753,748	12,381,234	28,570,625
Bilateral loans — floating rate	US dollar (USD)	–	4,947,819	1,237,915	–	6,185,734
Syndicated loan — floating rate	US dollar (USD)	2,201,050	734,600	–	–	2,935,650
Certificate of deposits issued	Great Britain pound (GBP)	163,944	–	–	–	163,944
	Indian rupee (INR)	312,804	–	–	–	312,804
	US dollar (USD)	1,872,803	97,713	–	–	1,970,516
Subordinated notes — fixed rate	US dollar (USD)	–	–	2,659,823	–	2,659,823
Borrowings through repurchase agreements	US dollar (USD)	–	–	–	202,333	202,333
	Indian rupee (INR)	26,320	–	–	–	26,320
Total borrowings		11,132,430	10,660,266	8,651,486	12,583,567	43,027,749

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 negative fair value of these swaps as at December 31, 2018 was AED 1,286,457 thousand.

Interests are payable in arrears and the contractual coupon rates as at December 31, 2019 are as follows:

Instrument	CCY	Within 1 year	1–3 years	3–5 years	Over 5 years
Global medium term notes	AUD	–	Fixed rate between 3.73% 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 4.05% p.a. to 5.02% p.a.	Fixed rate of 4.60% p.a.	–
	EUR	Quarterly coupons between 50 to 59 basis points over Euribor	Fixed rate of 0.04% p.a.	Fixed rate of 0.75% p.a.	–
	CHF	–	–	Fixed rate between 0.05% p.a. and 0.735% p.a.	–
	JPY	–	Fixed rate of 0.445% p.a.	–	–
	HKD	Fixed rate between 2.30% p.a. to 2.46% p.a.	Fixed rate between 2.69% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.	–
	USD	Fixed rate of 2.625% p.a. and quarterly coupons between 63 to 90 basis points over Libor	Fixed rate of 2.75% p.a. and quarterly coupons between 80 to 140 basis points over Libor	Fixed rate of 4.00% p.a. and quarterly coupons between 110 to 155 basis points over Libor	Fixed rate between 3.82% p.a. to 5.785% p.a. and quarterly coupons with 140 basis points over Libor (*)
	GBP	–	Fixed rate between 1.40% 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 — floating rate	USD	Monthly and quarterly coupons of 60 basis points over Libor	Monthly coupons between 50 to 85 basis points over Libor	Monthly coupons of 95 basis points over Libor	–
Syndicated loan — floating rate	USD	Monthly coupons with 73 basis point over Libor	–	–	–
Certificate of deposits issued	GBP	Fixed rate between 0.79% p.a. to 0.92% p.a.	–	–	–
	USD	Fixed rate between 1.90% p.a. to 2.84% p.a.	–	–	–
	CAD	Fixed rate of 2.40% p.a.	–	–	–
Subordinated notes — fixed rate	USD	–	–	Fixed rate of 4.50% p.a.	–
Borrowings through repurchase agreements	USD	Fixed rate between 1.00% p.a. to 3.85% p.a.	–	–	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	EGP	Fixed rate between 0.50% p.a. to 3.50% p.a.	Fixed rate of 3.00% p.a.	–	Fixed rate between 0.50% p.a. to 3.50% p.a.

(*) Includes AED 17,117,078 thousand accreting notes issued with original tenors ranging from 30 years to 40 years with yield ranging between 3.823% p.a. to 5.785% p.a. and are callable at the end of every 5th, 6th, 7th or 10th year from issue date

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 the UAE Central Bank. 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 49).

Reconciliation of borrowings movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2018	40,555,195
Net proceeds from issuances	20,109,045
Repayments	(17,105,210)
Other movements	(531,281)
As at January 1, 2019	**43,027,749**
Net proceeds from issuances	**18,012,653**
Addition on business combinations (Note 52)	**8,152,427**
Repayments	**(19,799,050)**
Other movements	**2,488,275**
As at December 31, 2019	**51,882,054**

Net proceeds from issuances include effects of changes in foreign exchange rates on borrowings. Other movements include interest capitalised on accreting notes, discount on issuances amortised and changes in fair value hedges.

20. Other liabilities

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Interest payable	**1,758,479**	1,409,503
Recognised liability for defined benefit obligation	**633,262**	487,995
Accounts payable and other creditors	**353,293**	215,558
Deferred income	**813,968**	672,303
Acceptances (Note 13)	**12,726,229**	10,531,047
Impairment allowance on letters of credit, guarantees and other commitments (Note 42.3)	**1,432,363**	349,752
Others (*)	**2,585,200**	1,630,410
Total other liabilities	**20,302,794**	15,296,568

(*) Includes AED 226,828 thousand pertaining to lease liability as at December 31, 2019 (December 31, 2018 — AED Nil)

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 2019 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:	2.80% p.a.
Salary increment rate:	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 20,524 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 19,333 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 18,637 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 17,714 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2019 AED'000	2018 AED'000
Opening balance	**487,995**	453,866
Addition on business combinations	**206,825**	–
Net charge during the year(*)	**74,158**	80,097
Actuarial gains on defined benefit obligation	**(16,773)**	(13,157)
Benefits paid	**(118,943)**	(32,811)
Closing balance	**633,262**	487,995

(*) Recognised under "staff costs" in the consolidated income statement

DEFINED BENEFIT 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 55,930 thousand (2018 — AED 35,404 thousand). As at December 31, 2019, pension payable of AED 7,139 thousand has been classified under "Other liabilities — others" (December 31, 2018 — AED 4,073 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 15,000 thousand as at December 31, 2019 (December 31, 2018 — AED Nil) 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.

21. Share capital

		Issued and fully paid	
	Authorised AED'000	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Ordinary shares of AED 1 each	**10,000,000**	**6,957,379**	5,198,231

As stated in Note 1, the Bank issued 1,759,148,145 shares pursuant to the merger and acquisition 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 52)	**16,218,031**	**1,000,000**	**17,218,031**

As at December 31, 2019, Abu Dhabi Investment Council held 60.20% (December 31, 2018 — 62.523%) of the Bank's issued and fully paid up share capital.

DIVIDENDS

For the year ended December 31, 2019, the Board of Directors has proposed to pay a cash dividend of AED 2,643,804 thousand, being AED 0.38 dividend per share and representing 38% of the paid up capital (December 31, 2018 — AED 2,391,186 thousand, being AED 0.46 dividend per share and representing 46% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

22. Other reserves

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	–	478,968	478,968	–	–	–	–	–	957,936	–	957,936
Fair value adjustments	(18)	–	–	–	–	–	–	–	(18)	–	(18)
Shares — vested portion (Note 24)	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 allowance for impairment

For more information on reserves refer to Note 49.

Reserves movement for the year ended December 31, 2018:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contin-gency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Total AED'000
As at January 1, 2018 (as previously reported)	(64,914)	2,797,799	2,797,799	2,000,000	150,000	(65,195)	(190,370)	59,808	7,484,927
Effect of change in accounting policy for IFRS 9	–	–	–	–	–	–	–	149,349	149,349
As at January 1, 2018 (restated)	(64,914)	2,797,799	2,797,799	2,000,000	150,000	(65,195)	(190,370)	209,157	7,634,276
Exchange difference arising on translation of foreign operations	–	–	–	–	–	(21,054)	–	–	(21,054)
Net fair value changes on cash flow hedges	–	–	–	–	–	–	(91,613)	–	(91,613)
Net fair value changes on cash flow hedges reclassified to consolidated income statement	–	–	–	–	–	–	133,205	–	133,205
Net fair value changes of debt instruments designated at FVTOCI	–	–	–	–	–	–	–	(713,879)	(713,879)
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	–	–	–	–	–	–	–	(12,127)	(12,127)
Net fair value changes of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(91,105)	(91,105)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	–	–	–	(1,588)	(1,588)
Total other comprehensive (loss)/income for the year	–	–	–	–	–	(21,054)	41,592	(818,699)	(798,161)
Fair value adjustments	66	–	–	–	–	–	–	–	66
Shares — vested portion (Note 24)	23,090	–	–	–	–	–	–	–	23,090
As at December 31, 2018	(41,758)	2,797,799	2,797,799	2,000,000	150,000	(86,249)	(148,778)	(609,542)	6,859,271

(*) Includes allowance for impairment

23. Islamic financing

Islamic financing assets

	2019 AED'000	2018 AED'000
Murabaha	**21,206,387**	3,633,709
Ijara financing	**19,515,742**	11,436,508
Salam	**6,556,904**	6,596,310
Others	**442,512**	234,908
Gross Islamic financing assets	**47,721,545**	21,901,435
Less: Allowance for impairment	**(845,643)**	(568,667)
Net Islamic financing assets	**46,875,902**	21,332,768

Gross Ijara and related present value of the minimum Ijara payments

	2019 AED'000	2018 AED'000
Not later than one year	**4,706,988**	2,053,800
Later than one year but not later than five years	**11,216,570**	5,446,449
Later than five years	**9,514,024**	6,981,305
Gross Ijara	**25,437,582**	14,481,554
Less: Deferred income	**(5,921,840)**	(3,045,046)
Net Ijara	**19,515,742**	11,436,508
Net present value		
Not later than one year	**3,694,475**	1,622,121
Later than one year but not later than five years	**8,633,960**	4,301,684
Later than five years	**7,187,307**	5,512,703
Total net present value	**19,515,742**	11,436,508

Income from Islamic financing

	2019 AED'000	2018 AED'000
Murabaha	**1,025,079**	202,823
Ijara financing	**938,843**	602,533
Salam	**409,329**	455,829
Sukuk investments	**74,343**	–
Others	**48,372**	15,561
Total income from Islamic financing	**2,495,966**	1,276,746

Islamic deposits

	2019 AED'000	2018 AED'000
Current account deposits	**11,507,685**	4,282,450
Margin deposits	**252,100**	75,248
Mudaraba savings deposits	**11,401,045**	6,732,645
Mudaraba term deposits	**1,324,282**	621,365
Wakala deposits	**22,491,377**	5,228,283
Total Islamic deposits	**46,976,489**	16,939,991

Islamic profit distribution

	2019 AED'000	2018 AED'000
Mudaraba savings and term deposits	**88,831**	66,960
Wakala deposits	**599,640**	102,941
Islamic sukuk notes and reverse murabaha	**79,138**	–
Total Islamic profit distribution	**767,609**	169,901

24. 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.

As at December 31, 2019, 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).

The movement of plan shares is as follows:

	2019	2018
Opening balance	**5,184,158**	9,614,022
Exercised during the year	**(2,685,579)**	(3,921,450)
Forfeited during the year	**(253,579)**	(508,414)
Closing balance	**2,245,000**	5,184,158
Amount of "Plan" cost recognised under "staff costs" in the consolidated income statement (AED '000)	**11,671**	23,090

Total number of un-allotted shares under the Plan as at December 31, 2019 were 4,105,237 shares (December 31, 2018 — 3,851,658 shares). These un-allotted shares include forfeited shares and shares purchased for future awards.

25. 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 52). 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 52), were settled in June 2019.

26. Interest income

	2019 AED'000	2018 AED'000
Loans and advances to banks	**1,008,319**	561,889
Loans and advances to customers	**10,606,624**	8,096,025
Investment securities	**2,262,743**	1,657,027
Total interest income	**13,877,686**	10,314,941

27. Interest expense

	2019 AED'000	2018 AED'000
Deposits from banks	**110,738**	87,526
Deposits from customers	**4,497,323**	2,700,853
Euro commercial paper	**90,563**	83,865
Borrowings (*)	**1,666,283**	1,330,418
Total interest expense	**6,364,907**	4,202,662

(*) Includes AED 11,937 thousand (for the year ended December 31, 2018: AED Nil) for interest expense on lease liabilities

28. Net fees and commission income

	2019 AED'000	2018 AED'000
Fees and commission income		
Card related fees	**1,001,618**	894,266
Loan processing fees	**621,888**	486,261
Accounts related fees	**167,416**	65,363
Trade finance commission	**438,536**	281,245
Insurance commission	**75,533**	61,610
Asset management and investment services	**86,840**	83,342
Brokerage fees	**6,519**	6,449
Other fees	**315,967**	211,592
Total fees and commission income	**2,714,317**	2,090,128
Fees and commission expense	**(898,155)**	(695,552)
Net fees and commission income	**1,816,162**	1,394,576

29. Net trading income

	2019 AED'000	2018 AED'000
Net gains from dealing in derivatives	**62,765**	39,275
Net gains from dealing in foreign currencies	**397,329**	381,478
Net gains from trading securities	**815**	11,052
Net trading income	**460,909**	431,805

30. Other operating income

	2019 AED'000	2018 AED'000
Property management income	**132,053**	133,850
Rental income	**82,563**	51,076
Net losses from disposal of investment securities	**(820)**	(10,474)
Gains arising from retirement of hedges	**3,207**	278
Dividend income	**13,191**	1,722
Others	**40,475**	15,947
Total other operating income	**270,669**	192,399

31. Operating expenses

	2019 AED'000	2018 AED'000
Staff expenses	**2,583,719**	1,838,475
Depreciation (Note 14)	**366,114**	175,927
Amortisation of intangible assets (Note 15)	**64,175**	–
General administrative expenses	**1,503,671**	1,069,099
Total operating expenses	**4,517,679**	3,083,501

32. Impairment allowances

	2019 AED'000	2018 AED'000
Financial instruments carried at amortised cost		
Charge during the year	**2,549,373**	1,503,800
Recoveries during the year	**(234,525)**	(218,089)
Financial instruments carried at amortised cost — net charge	**2,314,848**	1,285,711
Debt instruments designated at FVTOCI — net charge/(release)	**76,982**	(22,601)
Commitments and contingent liabilities — net (release)/charge	**(39,776)**	2,677
Total impairment allowances (Note 42.3)	**2,352,054**	1,265,787

33. 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.

	2019 AED'000	2018 AED'000
Profit for the year attributable to the equity holders of the Bank	**4,789,686**	4,839,854
Less: Coupons paid on capital notes (Note 25)	**(265,056)**	(174,789)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**4,524,630**	4,665,065
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**6,379,029**	5,198,231
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(9,024)**	(12,470)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**6,370,005**	5,185,761
Add: Weighted average number of shares resulting from employees' incentive plan shares	**9,024**	12,470
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**6,379,029**	5,198,231
Basic earnings per share (AED) (a)/(b)	**0.71**	0.90
Diluted earnings per share (AED) (a)/(c)	**0.71**	0.90

34. Discontinued operations

The Group has classified Al Hilal Takaful PSC (subsidiary) as disposal group held for sale. Subsequent to the reporting date, the Group has executed a sale agreement to sell its entire holding in Al Hilal Takaful PSC. In addition, the Group has also decided to discontinue the operations in Group's overseas branches in India, Qatar, Kuwait and China and Al Hilal Auto LLC (subsidiary). These have been presented separately in the statement of financial position.

Loss from discontinued operations comprises of the following:

For the year ended December 31, 2019	AED'000
Total net interest and Islamic financing income	**15,722**
Non-interest income	**(24,253)**
Operating expenses	**(3,362)**
Impairment allowances	**(24,825)**
Overseas tax expense	**(41)**
Total loss from discontinued operations	**(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 are as follows:

	As at December 31 2019 AED'000
Assets	
Cash and balances with central banks, net	**217,916**
Deposits and balances due from banks, net	**1,715**
Loans and advances to customers, net	**48,942**
Other assets, net	**263,665**
Property and equipment, net	**3,592**
Total assets classified as held for sale	**535,830**
Liabilities	
Deposits from customers	**120,283**
Other liabilities	**293,112**
Total liabilities related to assets held for sale	**413,395**

The net cash flows attributable to discontinued operations are as follows:

For the year ended December 31, 2019	AED'000
Net cash used in operating activities	**(66,341)**
Net cash from investing activities	**260,383**
Net cash used in financing activities	**(212,759)**
Net cash used in discontinued operations	**(18,717)**

35. Cash and cash equivalents

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

	2019 AED'000	2018 AED'000
Cash and balances with central banks	**24,905,213**	19,590,185
Deposits and balances due from banks (excluding loans and advances to banks)	**11,389,514**	12,638,037
Reverse-repo placements	**–**	2,203,800
Due to banks	**(5,732,779)**	(3,071,408)
	30,561,948	31,360,614
Less: Cash and balances with central banks, deposits and balances due from banks and reverse-repo placements — with original maturity of more than three months	**(10,442,791)**	(9,935,092)
Add: Due to banks — with original maturity of more than three months	**2,553,434**	1,669,331
Add: Cash and cash equivalents included in assets held for sale	**183,682**	–
Total cash and cash equivalents	**22,856,273**	23,094,853

36. 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.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

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.

PARENT AND ULTIMATE CONTROLLING PARTY

Abu Dhabi Investment Council holds 60.20% (December 31, 2018 — 62.523%) of the Bank's issued and fully paid up share capital (Note 21). 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.

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, 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**

	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, 2018					
Deposits and balances due from banks	1,707,946	–	–	–	1,707,946
Reverse-repo placements	2,020,150	–	–	–	2,020,150
Derivative financial instruments — assets	970,918	–	–	–	970,918
Investment securities	15,300,944	–	–	149,903	15,450,847
Loans and advances to customers	26,795,630	213,912	21,587	217,802	27,248,931
Other assets	521,871	4,731	24	3,611	530,237
Due to banks	13,000	–	–	–	13,000
Derivative financial instruments — liabilities	221,940	–	–	–	221,940
Deposits from customers	50,141,282	246,602	55,868	96,463	50,540,215
Other liabilities	497,305	3,461	14,851	918	516,535
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	4,432,669	118,536	2,197	28,856	4,582,258
Transactions for the year ended December 31, 2018					
Interest income, Islamic financing income, fees and other income	1,031,735	11,543	862	30,176	1,074,316
Interest expense and Islamic profit distribution	924,113	480	858	466	925,917
Derivative loss	43,072	–	–	–	43,072
Share in profit of associate	–	–	–	10,070	10,070
Coupons paid on capital notes	174,789	–	–	–	174,789

As at December 31, 2019, Funds under management held 3,235,817 shares (December 31, 2018: 2,328,534 shares) of the Bank. During the year, the Bank paid dividend of AED 898 thousand (2018: AED 1,778 thousand) to these Funds.

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

	2019 AED'000	2018 AED'000
Short-term benefits	**29,176**	28,795
Post-employment benefits	**2,578**	4,299
Variable pay benefits	**29,788**	26,035
Total remuneration	**61,542**	59,129
Board of Directors fees and expenses	**13,143**	9,765

In addition to the above, the key management personnel were granted long-term deferred compensation of AED 26,763 thousand (2018 — AED 20,315 thousand).

BUSINESS COMBINATIONS UNDER COMMON CONTROL

During the year, the Bank was involved in business combinations under common control. Refer Note 52 for details.

37. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Letters of credit	**7,239,078**	5,322,188
Guarantees	**60,261,667**	28,673,986
Commitments to extend credit — revocable (*)	**20,932,010**	11,244,578
Commitments to extend credit — irrevocable	**20,214,940**	14,528,686
Total commitments on behalf of customers	**108,647,695**	59,769,438
Commitments for future capital expenditure	**486,941**	461,668
Commitments to invest in investment securities	**1,757**	51,995
Total commitments and contingent liabilities	**109,136,393**	60,283,101

(*) Includes AED 7,907,139 thousand (December 31, 2018: AED 6,752,159 thousand) for undrawn credit card limits

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. These contracts would be exposed to market risk if issued or extended at a fixed rate of interest. However these contracts are primarily made at floating rates.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

38. 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.

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	881,559	447,442	391,140	8,216	1,728,357
Total net interest and Islamic financing income	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 expenses	(2,744,556)	(1,289,816)	(321,620)	(161,687)	(4,517,679)
Operating profit before impairment allowances	2,291,474	2,392,082	2,448,942	71,963	7,204,461
Impairment allowances	(1,230,556)	(1,041,856)	(79,642)	–	(2,352,054)
Operating profit after impairment allowances	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 expense	(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
Capital expenditure					273,344
As at December 31, 2019					
Allocated assets	107,842,598	171,219,179	119,785,206	1,694,822	400,541,805
Unallocated asset — goodwill recognised on business combinations (Note 15)	–	–	–	–	4,592,872
Total assets					405,134,677
Total liabilities	85,941,571	128,805,940	134,561,783	127,739	349,437,033

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2018:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	2,646,345	1,956,453	1,449,144	60,337	6,112,279
Net income from Islamic financing	475,102	337,328	287,223	7,192	1,106,845
Total net interest and Islamic financing income	3,121,447	2,293,781	1,736,367	67,529	7,219,124
Non-interest income	796,605	711,198	299,643	154,875	1,962,321
Operating expenses	(1,893,403)	(843,844)	(228,137)	(118,117)	(3,083,501)
Operating profit before impairment allowances	2,024,649	2,161,135	1,807,873	104,287	6,097,944
Impairment (allowances)/recoveries	(834,828)	(453,099)	22,140	–	(1,265,787)
Operating profit after impairment allowances	1,189,821	1,708,036	1,830,013	104,287	4,832,157
Share in profit of associate	10,070	–	–	–	10,070
Profit before taxation	1,199,891	1,708,036	1,830,013	104,287	4,842,227
Overseas income tax expense	(1,595)	(778)	–	–	(2,373)
Profit for the year	1,198,296	1,707,258	1,830,013	104,287	4,839,854
Capital expenditure					198,436
As at December 31, 2018					
Total assets	72,988,378	115,918,590	90,368,977	554,393	279,830,338
Total liabilities	53,779,990	88,893,849	104,261,700	89,256	247,024,795

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments except for goodwill recognised on business combinations (Note 15).

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	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
Consumer banking	**6,543,825**	5,150,822	**(1,507,795)**	(1,232,770)
Wholesale banking	**5,295,885**	4,243,633	**(1,613,987)**	(1,238,654)
Investments and treasury	**(265,408)**	(326,768)	**3,035,970**	2,362,778
Property management	**147,838**	113,758	**85,812**	108,646
Total operating income	**11,722,140**	9,181,445	**–**	–

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 in Kuwait, Qatar, China, India, Jersey and through its 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	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
Income				
Net interest and Islamic financing income	**9,091,578**	7,229,494	**149,558**	(10,370)
Non-interest income	**2,420,230**	1,954,487	**60,774**	7,834
Non-current assets				
Investment in associates	**387,627**	205,158	**20,141**	–
Investment properties	**1,684,448**	576,671	**9,259**	–
Property and equipment, net	**2,023,029**	977,778	**174,542**	4,827
Intangible assets	**5,211,497**	18,800	**121,000**	–

39. 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, 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	823,238	–	73,440,113
Loans and advances to customers, net	–	–	–	–	250,017,326	250,017,326
Other assets, net	–	–	–	–	16,611,092	16,611,092
Total financial assets	5,566,426	1,223,291	72,616,875	823,238	314,598,358	394,828,188
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

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, 2018.

	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	–	–	–	–	19,589,957	19,589,957
Deposits and balances due from banks, net	–	–	–	–	19,627,076	19,627,076
Reverse-repo placements	–	–	–	–	2,203,800	2,203,800
Trading securities	60,134	–	–	–	–	60,134
Derivative financial instruments	4,077,151	370,096	–	–	–	4,447,247
Investment securities	–	–	51,960,155	402,079	–	52,362,234
Loans and advances to customers, net	–	–	–	–	166,425,762	166,425,762
Other assets, net	–	–	–	–	13,252,580	13,252,580
Total financial assets	4,137,285	370,096	51,960,155	402,079	221,099,175	277,968,790
Liabilities						
Due to banks	–	–	–	–	3,071,408	3,071,408
Derivative financial instruments	3,815,764	1,880,147	–	–	–	5,695,911
Deposits from customers	–	–	–	–	176,653,857	176,653,857
Euro commercial paper	–	–	–	–	3,279,302	3,279,302
Borrowings	–	–	–	–	43,027,749	43,027,749
Other liabilities	–	–	–	–	14,132,197	14,132,197
Total financial liabilities	3,815,764	1,880,147	–	–	240,164,513	245,860,424

40. 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.

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 12 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.

	Notes	Level 1 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
As at December 31, 2019						
Assets at fair value						
Derivative financial instruments	**8**	**15**	**6,789,702**	**–**	**6,789,717**	**6,789,717**
Investment securities	**9**					
— Quoted		**65,909,746**	**3,491,351**	**–**	**69,401,097**	**69,401,097**
— Unquoted		**–**	**3,818,638**	**220,378**	**4,039,016**	**4,039,016**
Investment properties	**12**	**–**	**–**	**1,693,707**	**1,693,707**	**1,693,707**
Total		**65,909,761**	**14,099,691**	**1,914,085**	**81,923,537**	**81,923,537**
Liabilities at fair value						
Derivative financial instruments	**8**	**–**	**6,949,891**	**–**	**6,949,891**	**6,949,891**
Liabilities at amortised cost						
Euro commercial paper	**18**	**–**	**2,074,605**	**–**	**2,074,605**	**2,062,338**
Borrowings	**19**	**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**
As at December 31, 2018						
Assets at fair value						
Trading securities		60,134	–	–	60,134	60,134
Derivative financial instruments	8	56	4,447,191	–	4,447,247	4,447,247
Investment securities	9					
— Quoted		43,339,649	1,427,018	–	44,766,667	44,766,667
— Unquoted		–	7,343,724	251,843	7,595,567	7,595,567
Investment properties	12	–	–	576,671	576,671	576,671
Total		43,399,839	13,217,933	828,514	57,446,286	57,446,286
Liabilities at fair value						
Derivative financial instruments	8	275	5,695,636	–	5,695,911	5,695,911
Liabilities at amortised cost						
Euro commercial paper	18	–	3,285,187	–	3,285,187	3,279,302
Borrowings	19	15,427,393	26,186,580	–	41,613,973	43,027,749
Total		15,427,668	35,167,403	–	50,595,071	52,002,962

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.

Reconciliation showing the movement in fair values of Level 3 investments designated at FVTOCI is as follows:

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Opening balance	**251,843**	333,137
Acquired on business combinations	**35,005**	–
Purchases, net during the year	**18,119**	34,818
Disposals including capital refunds during the year	**(39,620)**	(36,973)
IFRS 9 transition adjustment	**–**	56,687
Adjustment through other comprehensive income during the year	**(44,969)**	(135,826)
Closing balance	**220,378**	251,843

The purchases under Level 3 category represent mainly capital contributions made during the year into private equity funds under existing capital commitments.

The disposals during the year mainly represent sale of certain investments and capital refunds distributed by the private equity fund managers out of sale of underlying investments held in the funds.

Gains of AED 23,853 thousand (2018 — gains of AED 1,596 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

There were no 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, 2019 was AED 159,190 thousand (December 31, 2018 — AED 149,903 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (December 31, 2018 — AED 28,365 thousand), out of which AED 185 thousand was utilised and outstanding as at December 31, 2019 (December 31, 2018 — AED 428 thousand). 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.

41. 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 rest with the Board. This is managed through various Board level committees; namely Board Risk & Credit Committee (BRCC) 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 BRCC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud, information security, reputational and information 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 BRCC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer and Group Credit Officer 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 BRCC 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.

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 Chief Risk Officer reports via matrix independently to BRCC 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, market, liquidity, operational, fraud, compliance, data governance 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 fulfil its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

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.

42. 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 BRCC. These govern all delegated lending authorities and include policies, standards, metrics, 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 audited financial statements review, 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.

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 a input to the IFRS 9 ECL model and these ratings are also use 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:

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 42.2.

EXTERNAL CREDIT RISK RATINGS

The table below presents the external credit ratings of the Group's deposits and balances due from banks, gross, reverse-repo placements and bond securities designated at FVTOCI 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.

	As at December 31, 2019		As at December 31, 2018		
Ratings	**Deposits and balances due from banks, gross AED'000**	**Bond securities designated at FVTOCI AED'000**	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Bond securities designated at FVTOCI AED'000
AAA to AA-	**1,105,612**	**20,443,712**	1,952,206	2,020,150	15,140,638
A+ to A-	**8,819,203**	**25,917,450**	7,502,039	183,650	15,502,091
BBB+ to BBB-	**3,616,247**	**10,468,670**	5,145,919	–	8,115,045
BB+ to B-	**8,707,552**	**8,756,621**	4,124,512	–	3,673,283
CCC+ to C-	**482**	**–**	–	–	251,845
UAE Sovereigns	**–**	**5,958,193**	–	–	8,968,664
Unrated	**865,840**	**1,072,229**	936,727	–	308,589
	23,114,936	**72,616,875**	19,661,403	2,203,800	51,960,155

UAE Sovereigns and unrated bond securities designated at FVTOCI internal ratings with comparable external ratings are as follows:

	Internal Rating	External Rating	2019 AED'000	2018 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**5,958,193**	8,968,664
Unrated	Grade 3- to 4	A-	**418,929**	152,694
	Grade 5 to 6	BB+ to BB	**443,075**	155,895
	Grade 7	CCC	**210,225**	–
			7,030,422	9,277,253

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 uncollateralised 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 Central Bank of UAE 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;
- 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.

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.

The Group changed the macro-economic model used to predict corporate defaults — The change was made to align the model with last approved macro-economic model used in Central Bank stress testing submission.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2019 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 40 and USD 90
Real GDP Growth	% change	ADCB UAE	Between 1.7% and 4.6%
Real Non-oil GDP Growth	% change	ADCB UAE	Between 1.9% and 5.1%
Abu Dhabi Real Estate Sale Prices	% change	ADCB UAE	Between -7.0% and 4.2%
Consumer inflation	% annual average	ADCB UAE	Between 1.2% and 2.8%
Dubai Real Estate Sale Prices	% change	ADCB UAE	Between -12% and -1%

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.

As required by Central Bank, the Group aligns its macro-economic model used in ECL computation with the macro-economic model used in Central bank stress testing submissions.

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.

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 cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

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.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

GROUPINGS BASED ON SHARED RISKS CHARACTERISTICS

For assessing the significant increase in credit risk and for the measurement of ECL on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- product type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- economic sector/industry;
- geographic location of the borrower;
- income bracket of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

CREDIT RISK DISCLOSURE

42.1 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, 2019 and 2018, 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, 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	**73,440,113**	**–**	**72,616,875**	**–**	**72,616,875**
Loans and advances to customers, net	**250,017,326**	**87,715,685**	**337,733,011**	**153,556,847**	**184,176,164**
Other assets, net	**16,750,208**	**–**	**16,607,641**	**–**	**16,607,641**
Total	**394,967,304**	**87,715,685**	**479,886,956**	**158,511,344**	**321,375,612**
As at December 31, 2018					
Cash and balances with central banks, net	19,589,957	–	18,090,957	–	18,090,957
Deposits and balances due from banks, net	19,627,076	–	19,627,076	–	19,627,076
Reverse-repo placements	2,203,800	–	2,203,800	2,203,800	–
Derivative financial instruments	4,447,247	–	4,447,247	3,544,828	902,419
Investment securities	52,362,234	–	51,960,155	–	51,960,155
Loans and advances to customers, net	166,425,762	48,524,860	214,950,622	115,517,388	99,433,234
Other assets, net	13,330,894	–	13,246,983	–	13,246,983
Total	277,986,970	48,524,860	324,526,840	121,266,016	203,260,824

The maximum exposure to credit risk of the investment securities (bonds) designated at FVTPL is their carrying amount, which amounts to AED Nil as at December 31, 2019 (December 31, 2018 — AED 60,134 thousand).

42.2 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, 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	**142,813,914**	**459,862**	**–**	**–**	**143,273,776**
Grades 5–6	**84,343,366**	**9,937,227**	**449,146**	**–**	**94,729,739**
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	**54,143,240**	**1,973,667**	**898,089**	**142,362**	**57,157,358**
Gross financial instruments carried at amortised cost	**286,167,100**	**21,625,791**	**8,505,830**	**3,868,859**	**320,167,580**
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**

As at December 31, 2018	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Grades 1–4	116,172,078	871,408	–	117,043,486
Grades 5–6	54,442,891	6,080,145	22,920	60,545,956
Grade 7	2,009,854	8,214,653	314,440	10,538,947
Grades 8–10	–	–	4,224,617	4,224,617
Unrated	32,144,064	1,207,979	665,185	34,017,228
Gross financial instruments carried at amortised cost	204,768,887	16,374,185	5,227,162	226,370,234
Debt instruments designated at FVTOCI				
Grades 1–4	49,051,583	–	–	49,051,583
Grades 5–6	1,517,888	1,138,839	–	2,656,727
Grade 7	–	251,845	–	251,845
Gross debt instruments designated at FVTOCI	50,569,471	1,390,684	–	51,960,155
Commitments and contingent liabilities				
Grades 1–4	26,486,370	196,318	–	26,682,688
Grades 5–6	17,377,416	1,367,389	–	18,744,805
Grade 7	1,643,725	1,140,022	–	2,783,747
Unrated	313,620	–	–	313,620
Total commitments and contingent liabilities	45,821,131	2,703,729	–	48,524,860

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, 2019	**204,768,887**	**16,374,185**	**5,227,162**	**–**	**226,370,234**
Addition on business combinations	**97,079,741**	**–**	**–**	**4,259,995**	**101,339,736**
– Transfer from stage 1 to stage 2	**(6,518,468)**	**6,518,468**	**–**	**–**	**–**
– Transfer from stage 1 to stage 3	**(2,896,606)**	**–**	**2,896,606**	**–**	**–**
– Transfer from stage 2 to stage 1	**1,297,573**	**(1,297,573)**	**–**	**–**	**–**
– 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 that have been 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	**286,167,100**	**21,625,791**	**8,505,830**	**3,868,859**	**320,167,580**
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 originated/purchased	**29,443,129**	**–**	**–**	**–**	**29,443,129**
Financial assets that have been 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 that have been 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**

As part of business combinations, the Bank acquired AED 84,049,403 thousand of gross loans excluding POCI loans. Fair value adjustments including historical ECL on these acquired loans amounting to AED 3,549,673 thousand has been netted off from the gross exposure acquired.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Balance as at January 1, 2018	194,575,357	14,616,888	3,715,415	212,907,660
– Transfer from stage 1 to stage 2	(3,937,547)	3,937,547	–	–
– Transfer from stage 1 to stage 3	(2,043,339)	–	2,043,339	–
– Transfer from stage 2 to stage 1	1,038,321	(1,038,321)	–	–
– Transfer from stage 2 to stage 3	–	(1,456,777)	1,456,777	–
– Transfer from stage 3 to stage 1	1,447	–	(1,447)	–
– Transfer from stage 3 to stage 2	–	96,791	(96,791)	–
Other movements within the same stage	(81,480)	(131,028)	(240,008)	(452,516)
New financial assets originated/purchased	59,822,709	1,241,567	233,413	61,297,689
Financial assets that have been derecognised	(44,606,581)	(892,482)	(126,978)	(45,626,041)
Net amounts written-off	–	–	(1,756,558)	(1,756,558)
Balance as at December 31, 2018	204,768,887	16,374,185	5,227,162	226,370,234
Debt instruments designated at FVTOCI				
Balance as at January 1, 2018	46,976,331	1,718,356	–	48,694,687
– Transfer from stage 1 to stage 2	(143,482)	143,482	–	–
– Transfer from stage 2 to stage 1	137,459	(137,459)	–	–
Other movements within the same stage	(877,321)	(100,353)	–	(977,674)
New financial assets originated/purchased	29,438,868	–	–	29,438,868
Financial assets that have been derecognised	(24,962,384)	(233,342)	–	(25,195,726)
Balance as at December 31, 2018	50,569,471	1,390,684	–	51,960,155
Commitments and contingent liabilities				
Balance as at January 1, 2018	38,103,907	2,858,101	–	40,962,008
– Transfer from stage 1 to stage 2	(1,222,768)	1,222,768	–	–
– Transfer from stage 2 to stage 1	730,308	(730,308)	–	–
Other movements within the same stage	(1,743,265)	(317,217)	–	(2,060,482)
New financial assets originated/purchased	21,983,795	553,644	–	22,537,439
Financial assets that have been derecognised	(12,030,846)	(883,259)	–	(12,914,105)
Balance as at December 31, 2018	45,821,131	2,703,729	–	48,524,860

42.3 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, 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**

As at December 31, 2018	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Grades 1–4	58,514	2,000	–	60,514
Grades 5–6	254,059	224,629	5,895	484,583
Grade 7	101,760	2,382,669	29,357	2,513,786
Grades 8–10	–	–	2,481,889	2,481,889
Unrated	437,579	378,476	418,829	1,234,884
Allowance for impairment	851,912	2,987,774	2,935,970	6,775,656
Debt instruments designated at FVTOCI				
Grades 1–4	9,882	–	–	9,882
Grades 5–6	14,050	29,584	–	43,634
Grade 7	–	129,919	–	129,919
Allowance for impairment	23,932	159,503	–	183,435
Commitments and contingent liabilities				
Grades 1–4	5,962	9,954	–	15,916
Grades 5–6	64,683	35,312	–	99,995
Grade 7	42,010	191,774	–	233,784
Unrated	57	–	–	57
Allowance for impairment	112,712	237,040	–	349,752
Total allowance for impairment	988,556	3,384,317	2,935,970	7,308,843

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 5)	**247**	**–**	**–**	**–**	**247**
Deposits and balances due from banks (Note 6)	**45,726**	**4,236**	**–**	**–**	**49,962**
Investment securities (Note 9) (*)	**26,190**	**27,708**	**206,519**	**–**	**260,417**
Loans and advances to customers (Note 10)	**787,274**	**2,982,378**	**3,492,708**	**71,050**	**7,333,410**
Other assets (Note 13)	**8,217**	**1,410**	**8,230**	**1,425**	**19,282**
Letters of credit, guarantees and other commitments (Note 20)	**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**

(*) Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI".

Allocation of impairment allowance for the year ended December 31, 2018 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balances with central banks (Note 5)	228	–	–	228
Deposits and balances due from banks (Note 6)	32,037	2,290	–	34,327
Investment securities (Note 9) (*)	23,932	159,503	–	183,435
Loans and advances to customers (Note 10)	815,349	2,984,050	2,927,473	6,726,872
Other assets (Note 13)	4,298	1,434	8,497	14,229
Letters of credit, guarantees and other commitments (Note 20)	112,712	237,040	–	349,752
Total allowance for impairment	988,556	3,384,317	2,935,970	7,308,843

(*) Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI".

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, 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 that have been 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 that have been 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 that have been 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**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Balance as at January 1, 2018	1,172,573	3,472,124	2,403,097	7,047,794
– Transfer from stage 1 to stage 2	(37,536)	37,536	–	–
– Transfer from stage 1 to stage 3	(184,443)	–	184,443	–
– Transfer from stage 2 to stage 1	179,053	(179,053)	–	–
– Transfer from stage 2 to stage 3	–	(575,368)	575,368	–
– Transfer from stage 3 to stage 1	945	–	(945)	–
– Transfer from stage 3 to stage 2	–	22,285	(22,285)	–
Other movements within the same stage	(181,553)	91,587	1,552,981	1,463,015
New financial assets originated/purchased	189,897	146,222	78,781	414,900
Financial assets that have been derecognised	(153,475)	(51,673)	(76,697)	(281,845)
Changes to methodologies, assumptions and risk parameters	(114,169)	24,114	(2,215)	(92,270)
Gross (release)/charge for the year	(301,281)	(484,350)	2,289,431	1,503,800
Recoveries	–	–	(218,089)	(218,089)
Net (release)/charge for the year	(301,281)	(484,350)	2,071,342	1,285,711
Discount unwind	(19,380)	–	–	(19,380)
Net amounts written-off	–	–	(1,538,469)	(1,538,469)
Balance as at December 31, 2018	851,912	2,987,774	2,935,970	6,775,656
Debt instruments designated at FVTOCI				
Balance as at January 1, 2018	19,106	186,930	–	206,036
– Transfer from stage 1 to stage 2	(396)	396	–	–
– Transfer from stage 2 to stage 1	7,485	(7,485)	–	–
Other movements within the same stage	1,804	(12,624)	–	(10,820)
New financial assets originated/purchased	3,166	–	–	3,166
Financial assets that have been derecognised	(3,632)	(2,954)	–	(6,586)
Changes to methodologies, assumptions and risk parameters	(3,601)	(4,760)	–	(8,361)
Net charge/(release) for the year	4,826	(27,427)	–	(22,601)
Balance as at December 31, 2018	23,932	159,503	–	183,435
Commitments and contingent liabilities				
Balance as at January 1, 2018	94,772	252,303	–	347,075
– Transfer from stage 1 to stage 2	(2,976)	2,976	–	–
– Transfer from stage 2 to stage 1	25,899	(25,899)	–	–
Other movements within the same stage	(29,220)	30,026	–	806
New financial assets originated/purchased	49,981	27,123	–	77,104
Financial assets that have been derecognised	(17,893)	(46,168)	–	(64,061)
Changes to methodologies, assumptions and risk parameters	(7,851)	(3,321)	–	(11,172)
Net charge/(release) for the year	17,940	(15,263)	–	2,677
Balance as at December 31, 2018	112,712	237,040	–	349,752

42.4 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, 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	**235,521,008**	**4,566,708**	**4,873,654**	**2,160,415**	**492,784**	**130,939**	**2,271,818**	**250,017,326**
Other assets, net	**8,586,267**	**262,323**	**110,412**	**4,416,754**	**2,620,613**	**29,904**	**581,368**	**16,607,641**
Total	**310,877,618**	**26,289,387**	**10,234,126**	**20,011,886**	**15,743,781**	**1,270,119**	**7,744,354**	**392,171,271**
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**
As at December 31, 2018								
Assets								
Balances with central banks, net	18,036,339	–	–	54,618	–	–	–	18,090,957
Deposits and balances due from banks, net	8,728,782	1,458,188	372,966	2,968,808	4,221,431	463,289	1,413,612	19,627,076
Reverse-repo placements	2,020,150	–	–	–	183,650	–	–	2,203,800
Derivative financial instruments	1,750,531	12,007	–	12,437	2,535,310	–	136,962	4,447,247
Investment securities — bonds	23,193,284	11,154,533	234,475	9,023,304	2,963,169	4,373,178	1,018,212	51,960,155
Loans and advances to customers, net	156,795,963	3,505,739	1,113,391	2,488,948	410,908	88,384	2,022,429	166,425,762
Other assets, net	6,651,974	572,509	14,238	2,562,229	1,372,182	2,018,871	54,980	13,246,983
Total	217,177,023	16,702,976	1,735,070	17,110,344	11,686,650	6,943,722	4,646,195	276,001,980
Commitment and contingent liabilities	40,512,108	1,762,921	109,680	2,668,687	1,978,526	1,061,262	431,676	48,524,860

(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, 2019			As at December 31, 2018		
	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	**203,757**	**51,745**	**255,502**	206,858	–	206,858
Energy	**1,645,117**	**1,838,315**	**3,483,432**	984,371	635,136	1,619,507
Trading	**8,698,087**	**1,712,628**	**10,410,715**	5,159,486	749,157	5,908,643
Real estate investment	**70,341,764**	**1,232,939**	**71,574,703**	48,969,942	1,725,242	50,695,184
Hospitality	**10,866,285**	**514,118**	**11,380,403**	8,691,000	69,730	8,760,730
Transport and communication	**2,841,693**	**1,849,401**	**4,691,094**	1,419,435	1,041,719	2,461,154
Personal	**61,864,156**	**1,173,687**	**63,037,843**	36,582,222	111,637	36,693,859
Government & public sector entities	**51,019,692**	**502,210**	**51,521,902**	35,260,180	88,955	35,349,135
Financial institutions (*)	**14,736,256**	**3,665,901**	**18,402,157**	11,055,743	3,379,204	14,434,947
Manufacturing	**5,274,291**	**1,983,287**	**7,257,578**	2,681,505	2,143,409	4,824,914
Services	**5,426,309**	**299,124**	**5,725,433**	3,141,602	284,631	3,426,233
Others	**9,311,793**	**298,181**	**9,609,974**	8,719,723	51,747	8,771,470
	242,229,200	**15,121,536**	**257,350,736**	162,872,067	10,280,567	173,152,634
Less: Allowance for impairment			**(7,333,410)**			(6,726,872)
Total loans and advances to customers, net			**250,017,326**			166,425,762

(*) Includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 27.58% of the gross loans and advances to customers (December 31, 2018 — 36.58%).

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, 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	**54,322,995**	**2,227,179**	**15,776,875**	**2,664,020**	**12,724,616**	**87,715,685**
As at December 31, 2018						
Assets						
Balances with central banks, net	–	–	–	18,090,957	–	18,090,957
Deposits and balances due from banks, net	–	–	–	–	19,627,076	19,627,076
Reverse-repo placements	–	–	–	–	2,203,800	2,203,800
Derivative financial instruments	961,552	173,120	287,175	9,595	3,015,805	4,447,247
Investment securities — bonds	1,050,819	–	12,245,954	30,195,860	8,467,522	51,960,155
Other assets, net	10,325,066	391,551	1,227,335	259,811	1,043,220	13,246,983
Total	12,337,437	564,671	13,760,464	48,556,223	34,357,423	109,576,218
Commitment and contingent liabilities	29,072,100	1,878,361	7,309,165	2,541,071	7,724,163	48,524,860

42.5 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, 2019 was AED 247,161,187 thousand (December 31, 2018 — AED 178,273,983 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:

	2019 AED'000	2018 AED'000
Internal risk grades		
Grades 1 to 4	**5,160,691**	3,639,422
Grades 5 to 6	**1,536,539**	776,407
Grade 7	**74,873**	–
Unrated	**17,614**	31,418
	6,789,717	4,447,247

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 agreements.

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.

43. 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.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificate of deposits and reverse repo.

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).

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2019 is as follows. 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.

	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	823,238	73,440,113
Loans and advances to customers, net	190,644,741	25,372,562	7,348,137	8,747,036	26,541,893	(8,637,043)	250,017,326
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	–	–	–	–	–	5,332,497	5,332,497
Assets held for sale	–	–	–	–	–	535,830	535,830
Total assets	225,196,141	34,688,783	15,468,333	32,337,738	56,295,401	41,148,281	405,134,677
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	–	–	–	–	–	55,697,644	55,697,644
Total liabilities and equity	166,436,725	33,336,593	26,712,976	8,099,214	30,916,078	139,633,091	405,134,677
On-balance sheet gap	58,759,416	1,352,190	(11,244,643)	24,238,524	25,379,323	(98,484,810)	–
Off-balance sheet gap	7,782,963	(332,626)	(3,067,581)	(8,639,002)	4,256,246	–	–
Total interest rate sensitivity gap	66,542,379	1,019,564	(14,312,224)	15,599,522	29,635,569	(98,484,810)	–
Cumulative interest rate sensitivity gap	66,542,379	67,561,943	53,249,719	68,849,241	98,484,810	–	–

Non-interest bearing items under loans and advances to customers, net include mainly impairment allowances.

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2018 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	2,763,173	918,250	–	–	–	15,908,534	19,589,957
Deposits and balances due from banks, net	10,659,141	4,317,512	2,484,940	275,475	–	1,890,008	19,627,076
Reverse-repo placements	2,203,800	–	–	–	–	–	2,203,800
Trading securities	60,134	–	–	–	–	–	60,134
Derivative financial instruments	3,511,217	7,116	2,594	–	–	926,320	4,447,247
Investment securities	14,740,064	1,548,855	2,128,572	12,982,183	20,560,481	402,079	52,362,234
Loans and advances to customers, net	124,013,930	8,233,148	2,565,657	10,697,221	28,377,770	(7,461,964)	166,425,762
Investment in associate	–	–	–	–	–	205,158	205,158
Investment properties	–	–	–	–	–	576,671	576,671
Other assets, net	18,585	–	–	–	–	13,312,309	13,330,894
Property and equipment, net	–	–	–	–	–	982,605	982,605
Intangible asset	–	–	–	–	–	18,800	18,800
Total assets	157,970,044	15,024,881	7,181,763	23,954,879	48,938,251	26,760,520	279,830,338
Liabilities and equity							
Due to banks	989,967	168,993	380,782	660,785	–	870,881	3,071,408
Derivative financial instruments	4,955,271	32,679	–	–	–	707,961	5,695,911
Deposits from customers	85,911,960	18,507,486	29,704,071	2,588,263	56,035	39,886,042	176,653,857
Euro commercial paper	636,418	2,202,480	440,404	–	–	–	3,279,302
Borrowings	16,710,361	1,016,077	2,619,384	3,728,912	18,953,015	–	43,027,749
Other liabilities	–	–	–	–	–	15,296,568	15,296,568
Equity	–	–	–	–	–	32,805,543	32,805,543
Total liabilities and equity	109,203,977	21,927,715	33,144,641	6,977,960	19,009,050	89,566,995	279,830,338
On-balance sheet gap	48,766,067	(6,902,834)	(25,962,878)	16,976,919	29,929,201	(62,806,475)	–
Off-balance sheet gap	(7,811,291)	688,926	2,103,608	(1,043,055)	6,061,812	–	–
Total interest rate sensitivity gap	40,954,776	(6,213,908)	(23,859,270)	15,933,864	35,991,013	(62,806,475)	–
Cumulative interest rate sensitivity gap	40,954,776	34,740,868	10,881,598	26,815,462	62,806,475	–	–

Non-interest bearing items under loans and advances to customers, net include mainly impairment allowances.

44. 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 Advances to Stable Resources (ADR) ratio and Liquidity Coverage ratio (LCR) stipulated by the Central Bank of the UAE and internally approved management triggers for liquidity risk;
- Monitoring Basel-III based NSFR liquidity risk ratio as a measure of long-term liquidity stress and maintaining the ratio above the management approved threshold; and
- 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.
- Monitoring of depositor concentration to ensure that the Group's deposit funding is well diversified.

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above is in line with the definition of Advances to Stable Resources ratio as prescribed by the Central Bank of the UAE.

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 Central Bank of the UAE 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.

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 the Central Bank of the UAE to manage its liquidity risk during critical times:

- Overdraft facility against its cash reserves at overnight repo rate plus a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight repo rate plus a spread of 300 basis points; and
- Repo facility against CDs at overnight repo rate.

The Bank has access to Marginal Lending Facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, Bank can borrow from UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities were utilised and outstanding at the end of the year.

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.

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."

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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	30,597,579	73,440,113
Loans and advances to customers, net	43,956,474	5,191,108	7,122,147	45,665,622	148,081,975	250,017,326
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	–	–	–	–	5,332,497	5,332,497
Assets held for sale	535,830	–	–	–	–	535,830
Total assets	99,794,140	16,048,849	28,486,180	73,131,315	187,674,193	405,134,677
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	6,469,937	1,188,275	9,018,310	315,229	3,311,043	20,302,794
Liabilities related to assets held for sale	413,395	–	–	–	–	413,395
Equity	–	–	–	–	55,697,644	55,697,644
Total liabilities and equity	220,623,380	34,964,837	38,877,232	14,494,313	96,174,915	405,134,677
Balance sheet liquidity gap	(120,829,240)	(18,915,988)	(10,391,052)	58,637,002	91,499,278	–
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

The maturity profile of the assets and liabilities as at December 31, 2018 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	18,671,707	918,250	–	–	–	19,589,957
Deposits and balances due from banks, net	10,761,195	4,387,546	2,812,860	1,665,475	–	19,627,076
Reverse-repo placements	2,203,800	–	–	–	–	2,203,800
Trading securities	60,134	–	–	–	–	60,134
Derivative financial instruments	4,086,359	12,830	17,190	142,421	188,447	4,447,247
Investment securities	6,246,853	1,915,841	2,531,630	20,644,319	21,023,591	52,362,234
Loans and advances to customers, net	23,176,952	2,576,571	1,914,533	28,000,357	110,757,349	166,425,762
Investment in associate	–	–	–	–	205,158	205,158
Investment properties	–	–	–	576,671	–	576,671
Other assets, net	6,441,454	754,338	6,134,673	13	416	13,330,894
Property and equipment, net	–	–	–	–	982,605	982,605
Intangible asset	–	–	–	–	18,800	18,800
Total assets	71,648,454	10,565,376	13,410,886	51,029,256	133,176,366	279,830,338
Liabilities and equity						
Due to banks	1,860,848	168,993	380,782	660,785	–	3,071,408
Derivative financial instruments	3,834,454	244,774	54,684	206,712	1,355,287	5,695,911
Deposits from customers	125,393,295	18,511,910	29,727,340	2,588,263	433,049	176,653,857
Euro commercial paper	636,418	2,202,480	440,404	–	–	3,279,302
Borrowings	3,127,070	813,744	7,191,616	10,660,266	21,235,053	43,027,749
Other liabilities	7,827,616	535,765	6,209,983	10,536	712,668	15,296,568
Equity	–	–	–	–	32,805,543	32,805,543
Total liabilities and equity	142,679,701	22,477,666	44,004,809	14,126,562	56,541,600	279,830,338
Balance sheet liquidity gap	(71,031,247)	(11,912,290)	(30,593,923)	36,902,694	76,634,766	–
Off balance sheet						
Financial guarantees and irrevocable commitments	1,123,474	3,168,480	2,222,987	6,371,699	4,067,004	16,953,644

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2019 and 2018 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, 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**
As at December 31, 2018							
Due to banks	3,071,408	3,202,619	1,894,629	173,046	393,585	741,359	–
Derivative financial instruments	5,695,911	3,933,966	3,599,517	393,614	25,431	(1,614)	(82,982)
Deposits from customers	176,653,857	179,220,417	126,742,475	18,725,235	30,562,044	2,749,830	440,833
Euro commercial paper	3,279,302	3,303,973	639,414	2,222,137	442,422	–	–
Borrowings	43,027,749	79,408,470	3,508,161	980,085	7,690,488	11,700,475	55,529,261
Total financial liabilities	231,728,227	269,069,445	136,384,196	22,494,117	39,113,970	15,190,050	55,887,112

45. 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 is as below:

	2019 AED'000	2018 AED'000
Daily value at risk (VaR at 99% — 1 day)		
Overall risk	**(5,136)**	(5,496)
Average VaR	**(4,843)**	(6,621)

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.

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, 2019, the Group's net delta notional positions in major currencies are as below:

	Net currency position (short)/long	
Currency	2019 AED'000	2018(*) AED'000
USD	**31,792,775**	(16,154,265)
EUR	**64,011**	(16,109)
GBP	**1,413**	(49,629)
JPY	**19,621**	22,662
INR	**211,128**	224,437
SAR	**(4,448,838)**	(466,225)
EGP	**492,841**	267
AUD	**(52,830)**	(15,207)

(*) In 2018, net currency positions were presented on gross notional basis. The above table is computed based on net delta notional positions.

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:

	2019		2018	
Price shock in percentage	+5% AED'000	-5% AED'000	+5% AED'000	-5% AED'000
USD-AUD	**(2,578)**	**5,097**	(207)	1,689
EUR-USD	**(6,770)**	**9,120**	(15,493)	24,965
GBP-USD	**2,197**	**(2,147)**	1,182	(914)
USD-JPY	**103**	**(122)**	1,474	8
USD-INR	**(11,769)**	**13,143**	(13,762)	6,991
USD-EGP	**(23,384)**	**25,846**	(13)	14
USD-SAR	**105,725**	**(508,562)**	(13,977)	(64,104)

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:

	2019		2018	
	+25bps AED'000	-25bps AED'000	+25bps AED'000	-25bps AED'000
AED	**(29,850)**	**31,783**	(3,941)	10,713
USD	**3,059**	**(4,953)**	(110)	466

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:

	2019		2018	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	**70,293**	**(62,094)**	107,807	(107,807)

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.

46. 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 cost-effective manner within targeted levels of operational risk consistent with our defined risk appetite.

KEY DEVELOPMENTS IN 2019

During 2019, the Group has enhanced the Operational Risk Management Framework ("ORMF"), Operational Risk Management Policy and updated standard operating procedures.

The new ORMF provides an end-to-end view of non-financial risks, enhancing 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.

The Group focused on the use of the three lines of defence model to reinforce individual accountability. It sets our roles and responsibilities for managing operational risk on a daily basis. All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model.

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.

GOVERNANCE AND STRUCTURE

The ORMF defines minimum standards and processes and the governance structure for the management of operational risk and internal controls in the Group's businesses and support functions. The ORMF has been codified in policies and supplemented with detailed standard operating procedures. 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 leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defence. It supports the Group Chief Risk Officer 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 Strategic Board Risk and Credit Committee (SBRCC). A formal governance structure provides oversight of the function's management.

KEY RISK MANAGEMENT PROCESSES

Business managers throughout the Group are responsible for maintaining an acceptable level of internal control 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 a tool for the systematic reporting of operational loss data.

Operational risk and control self-assessments, along with issue and action plans, are identified and maintained by business units. Business and functional management monitor the progress of documented action plans to address any shortcomings. To help ensure that operational risk losses are consistently reported and monitored at Group level, all Group companies are required to report individual losses when the gross loss is expected to exceed AED 1,000, and to aggregate all other operational risk losses as per the standard operating procedures. Losses are reported and escalated to the appropriate governance structures on a monthly and ad-hoc basis in line with their materiality.

47. Trust activities

As at December 31, 2019, the net asset value of the funds under the management of the Group amounted to AED 2,981,303 thousand (December 31, 2018 — AED 2,504,545 thousand).

48. 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	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	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 (Formerly known as ADCB Holdings (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	100%	2008	United Kingdom	UK representative office and process service agent.
ITMAM Services FZ LLC (Formerly known as ADCB 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	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
ADCB Structuring II (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
Common Services SARL	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	89.2%	2006	UAE	Shari'a compliant Islamic finance products and services.
Al Wifaq Properties LLC	89.2%	2015	UAE	Property management services.
Union Brokerage LLC	100%	2002	UAE	Agent in trading of financial instruments and stocks.
Injaz Marketing Management LLC	99.0%	2007	UAE	Marketing management services.
Union National Bank — Egypt	96.6%	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'a compliant leasing operations.
Al Hilal Takaful PSC[3]	100%	2008	UAE	Shari'a compliant general insurance services.
Al Hilal Auto LLC[4]	100%	2009	UAE	Shari'a compliant trading in new and used cars.
Al Hilal Al Mariah Development LLC[2]	100%	2012	UAE	Real estate development.
AHB Sukuk Company Limited	Controlling interest	2011	Cayman Islands	Treasury financing activities.

(1) Dormant (2) Under liquidation (3) Held for sale (4) Discontinued operations

The Group does not have any subsidiary with material non-controlling interests.

49. 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 Central Bank of the United Arab Emirates;
- 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 Central Bank of the United Arab Emirates.

The UAE Central Bank vide its circular No. 60/2017 dated March 2, 2017 informed all the Banks operating in the UAE to comply with Basel III Capital Adequacy regulations effective from February 1, 2017. The regulations were issued to ensure compliance with Basel III Capital Standard set out by the Basel Committee on Banking Supervision (BCBS).

For credit and market risk, the Central Bank of the United Arab Emirates 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 Central Bank of the United Arab Emirates 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:

a) Tier 1 capital, composed of:

(i) Common Equity Tier 1 (CET1) and

(ii) Additional Tier 1 (AT1).

b) 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:

(i) goodwill and other intangible assets;

(ii) cash flow hedge reserves;

(iii) defined benefit pension fund assets and liabilities;

(iv) treasury shares

AT1 capital comprises of instruments eligible for inclusion in AT 1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank 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 II 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 Bank 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 2019 AED'000	As at December 31 2018 AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 21)	**6,957,379**	5,198,231
Share premium	**17,878,882**	2,419,999
Other reserves (Note 22)	**8,649,013**	7,659,349
Retained earnings	**15,403,049**	14,010,929
Non-controlling interests	**59,257**	–
Regulatory deductions and adjustments		
Intangible assets, net (Note 15)	**(5,332,497)**	(18,800)
Cash flow hedge reserve (Note 22)	**10,227**	(148,778)
Employee's incentive plan shares, net (Note 22)	**(30,105)**	(41,758)
Revaluation reserve of investments designated at FVTOCI (Note 22)	**277,328**	(609,542)
Total CET1 capital	**43,872,533**	28,469,630
Additional tier 1 (AT1) capital		
Capital notes (Note 25)	**6,000,000**	4,000,000
Total AT1 capital	**6,000,000**	4,000,000
Total tier 1 capital	**49,872,533**	32,469,630
Tier 2 capital		
Eligible general provision	**3,649,904**	2,359,353
Subordinated notes (Note 19)	**1,226,060**	1,841,730
Total tier 2 capital	**4,875,964**	4,201,083
Total regulatory capital	**54,748,497**	36,670,713
Risk-weighted assets		
Credit risk	**291,992,334**	188,748,218
Market risk	**8,170,213**	8,396,389
Operational risk	**24,027,523**	15,262,739
Total risk-weighted assets	**324,190,070**	212,407,346
CET1 ratio	**13.53%**	13.40%
AT1 ratio	**1.85%**	1.88%
Tier 1 ratio	**15.38%**	15.28%
Tier 2 ratio	**1.51%**	1.98%
Capital adequacy ratio	**16.89%**	17.26%

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 recognised as a liability. On January 17, 2018 Central Bank of the UAE 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:

	2019	2018
CET1 ratio	**12.72%**	12.27%
Tier 1 ratio	**14.57%**	14.16%
Capital adequacy ratio	**16.07%**	16.14%

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 February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

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 the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer of 0.5% for ADCB.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing January 1, 2017 through January 1, 2019. Transitional requirements result in a phase-in of a capital conservation and D-SIB buffers over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	2019	2018
CET1 including buffers		
– CET1	**7.00%**	7.00%
– CCB	**2.50%**	1.88%
– D-SIB buffer	**0.50%**	0.38%
CET1 including buffers	**10.00%**	9.25%
Tier 1	**11.50%**	10.75%
Minimum capital requirement	**13.50%**	12.75%

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 478,968 thousand has been transferred to statutory reserve during the year (December 31, 2018 — AED Nil). 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 478,968 thousand has been transferred to legal reserve during the year (December 31, 2018 — AED Nil). 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.

(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 19).

50. Social contributions

The Group made the following social contributions during the year:

	2019 AED'000	2018 AED'000
Donations	**2,132**	1,497
Sponsorships	**13,390**	6,998
Total social contributions	**15,522**	8,495

51. 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.

52. 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.

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 preliminary 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. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(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	3,300,842
Loans and advances to customers	65,804,971	18,589,124
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)	**98,713,708**	**30,118,530**
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	1,102,601
Liabilities related to assets held for sale	–	316,930
	84,555,297	**27,760,499**
Tier I capital notes	2,000,000	1,836,500
Non-controlling interests	54,783	–
Total liabilities (c)	**86,610,080**	**29,596,999**
Total identifiable net assets at preliminary fair value (d) = (b) – (c)	**12,103,628**	**521,531**
Goodwill arising on business combinations (a) – (d)	**4,114,403**	**478,469**

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The goodwill is attributable mainly to the synergies expected to be achieved from integration of UNB and AHB into the Group.

The Group is in the process of undertaking comprehensive purchase price allocation which is expected to complete within twelve months from the date of business combinations. This may result in different values being attributed to the assets, liabilities and contingent liabilities acquired, and hence, change in the goodwill.

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.

PURCHASE CONSIDERATION — CASH INFLOW

	AED'000
Cash and cash equivalent acquired	**11,037,392**
Purchase consideration paid in cash	–
Net Inflow of Cash — investing activities	**11,037,392**

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENT

From the date of merger, UNB contributed AED 2,411,826 thousand to total operating income and AED 1,150,468 thousand to profit before tax from continuing operations of the Group.

Similarly, AHB contributed AED 787,286 thousand to total operating income and AED 372,669 thousand to profit before tax from continuing operations of the Group from the date of acquisition.

If the combinations had taken place at the beginning of the year, total operating income from continuing operations would have been AED 13,211,961 thousand and profit before tax from continuing operations for the Group would have been AED 5,345,037 thousand.

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if acquisition had occurred on January 1, 2019.

BUSINESS COMBINATION RELATED COSTS

The Group incurred integration and transaction costs of AED 294,321 thousand mainly comprising of external legal fees and due diligence costs. These costs have been included in "operating expenses" in the consolidated income statement.

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