BEYOND AMBITION

ABU DHABI COMMERCIAL BANK PJSC
2018 ANNUAL REPORT

بنك أبوظبي التجاري
ADCB

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

TOGETHER WE CREATED A STRONG
FOUNDATION

With our unrelenting focus on the UAE, in-depth regional expertise, and consistent leadership, ADCB is an acknowledged market leader, creating long-term value and delivering strong results.

TOTAL ASSETS

1985

1985
Established following merger of three Abu Dhabi banks

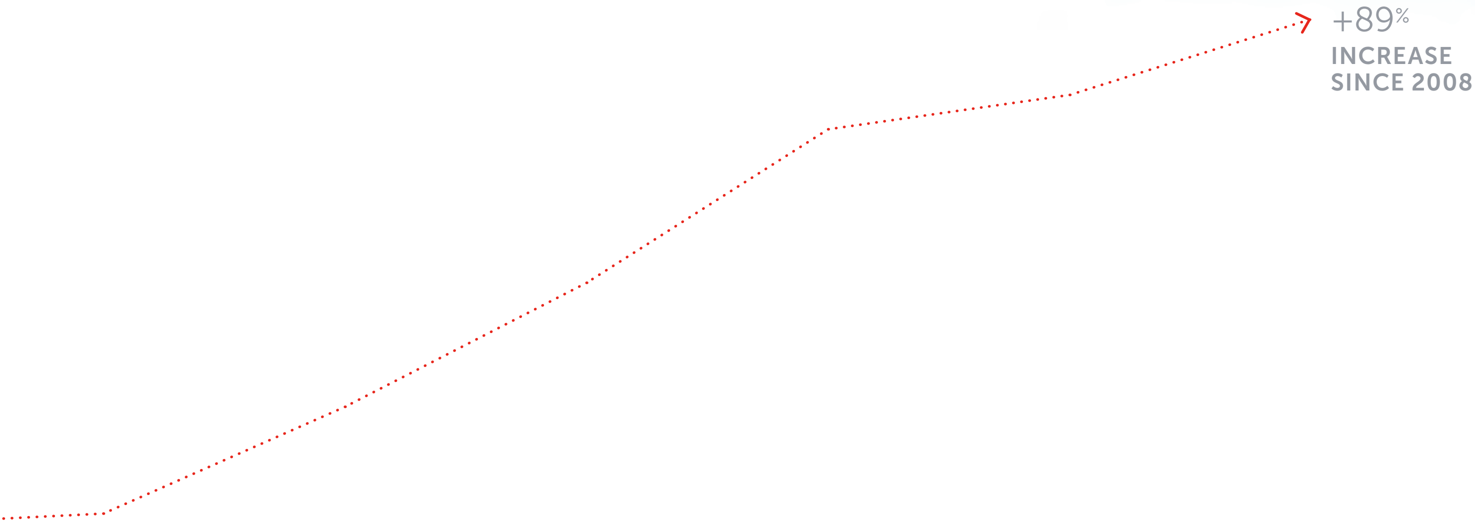
2004
Re-branded with new look and feel

2009
144A issuance: First ever global offering by any GCC bank

2010
Acquired the Retail banking and Wealth management businesses of the Royal Bank of Scotland in the UAE

2012
Share buyback approved by shareholders

FOR THE FUTURE



2019

2013

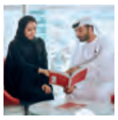
Re-branded with new look and feel

2014

Launch of Tamooha, to enable Emirati women to balance a fulfilling career with their traditional values

2016

Launch of uBank, our digital banking experience



2017

Launch of Money Sense programme, to promote financial literacy among UAE Nationals aged 18–35

2019

Announcement of merger with UNB and aquisition of Al Hilal Bank by the merged entity*

*Subject to regulatory and shareholder approval

FOCUSED AND COMMITTED

Our aspiration to be the number one bank of choice in the UAE is fuelled by the strength and effectiveness of our strategy. Guided by our values of Integrity, Care, Ambition, Respect, and Discipline and by putting our customers at the centre of our decision-making, ADCB has become a highly-recognised brand, trusted by our stakeholders.

TO OUR LONG-TERM

VISION & VALUES

MOVING BEYOND

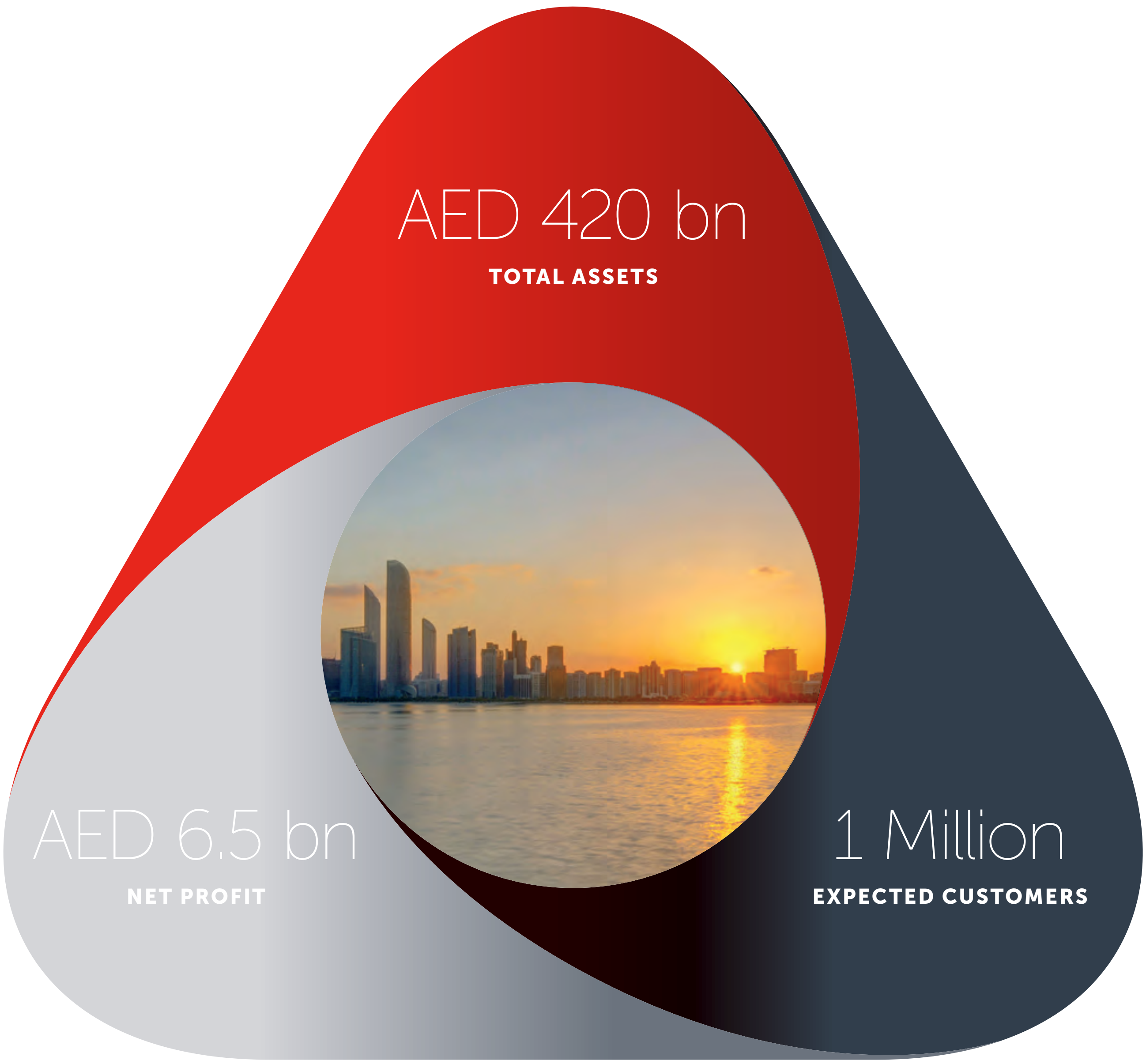
A decade of strong and consistent leadership has enabled us to go beyond our ambitions to deliver more to our stakeholders. We have demonstrated this in the strength of our balance sheet that has delivered superior gains since 2008, and with the growing number of customers, whose satisfaction is high and whose personal and professional ambitions we have helped to unlock. Today we are poised to welcome a new dawn, providing world-class products and services created for the digital age.

OUR AMBITION

TO BUILD A
BETTER TOMORROW

Our landmark merger with Union National Bank and subsequent acquisition of Al Hilal Bank presents the UAE with a powerful new financial institution. This transaction* cements our position as the third largest financial institution in the UAE and the fifth in the Gulf Cooperation Council (GCC) region. With greater scale, strong institutional backing, and more investment, we will be better positioned to support our customers, staff and the UAE economy.

* Subject to regulatory and shareholder approvals



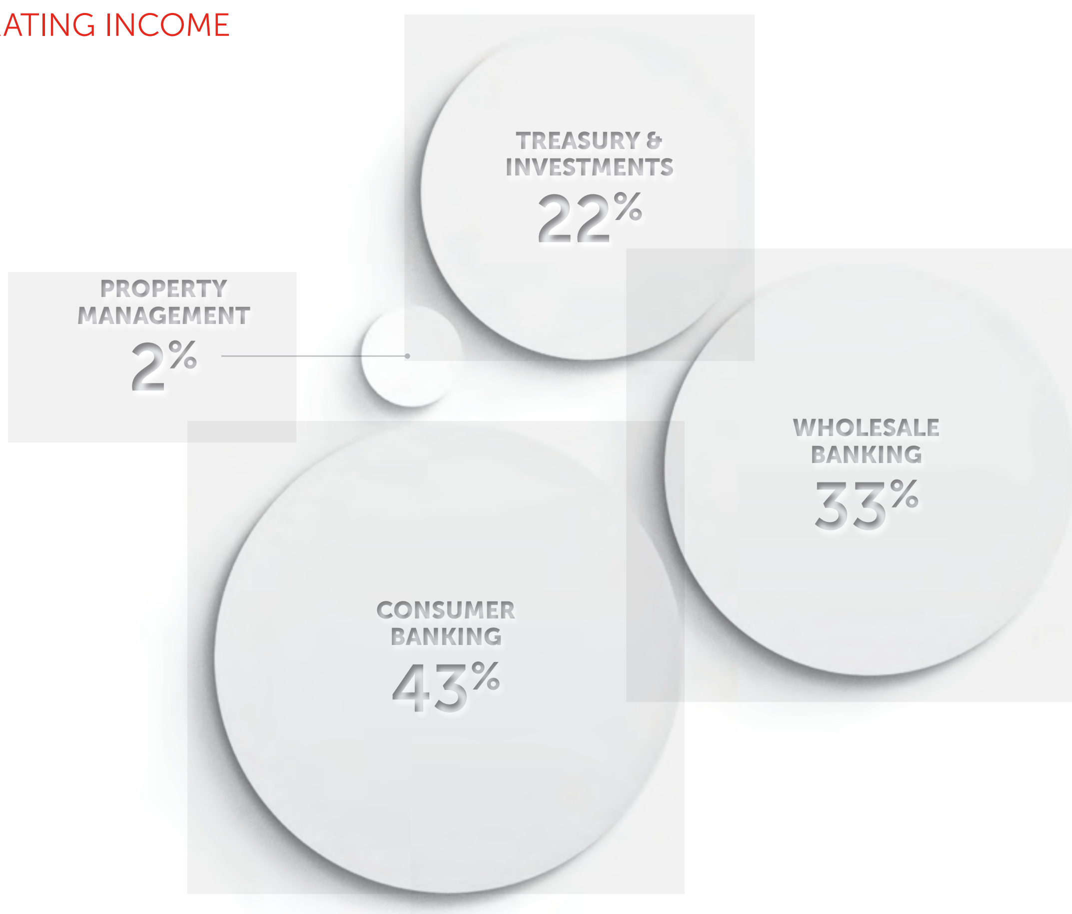
Further information about the proposed transaction can be found at beyondambition.com

Source: Company information as of 30 September 2018 and annualised for net profit
Preliminary pro-forma financials for ADCB and UNB and Al Hilal Bank take into account intercompany eliminations

ADCB AT A GLANCE

An acknowledged leader in the UAE banking sector, ADCB provides a range of products and services for more than 886,000 retail and corporate customers. Established in 1985, ADCB places its focus on the UAE where it helps to make a significant contribution to the economy and the communities it serves. Our ambition is to be the number one bank of choice in the UAE.

CONTRIBUTION TO OPERATING INCOME



BUSINESS FUNCTIONS

CONSUMER BANKING

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 62

WHOLESALE BANKING

Our portfolio of services includes business banking, cash management, trade finance, corporate finance and investment banking 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 66

TREASURY & INVESTMENTS

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

Read more about this on page 70

PROPERTY MANAGEMENT

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

Read more about this on page 72

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 73

HUMAN RESOURCES

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

Read more about this on page 75

AED 280 bn

ASSETS

AED 4.840 bn

NET PROFIT

AED 0.90

BASIC EARNINGS PER SHARE

17.26%

CAPITAL ADEQUACY RATIO (BASEL III)

OUR RATINGS

A/A-1/ Stable

S&P

A+/F1/ Stable

FITCH


AL MASR TOWER
Ove

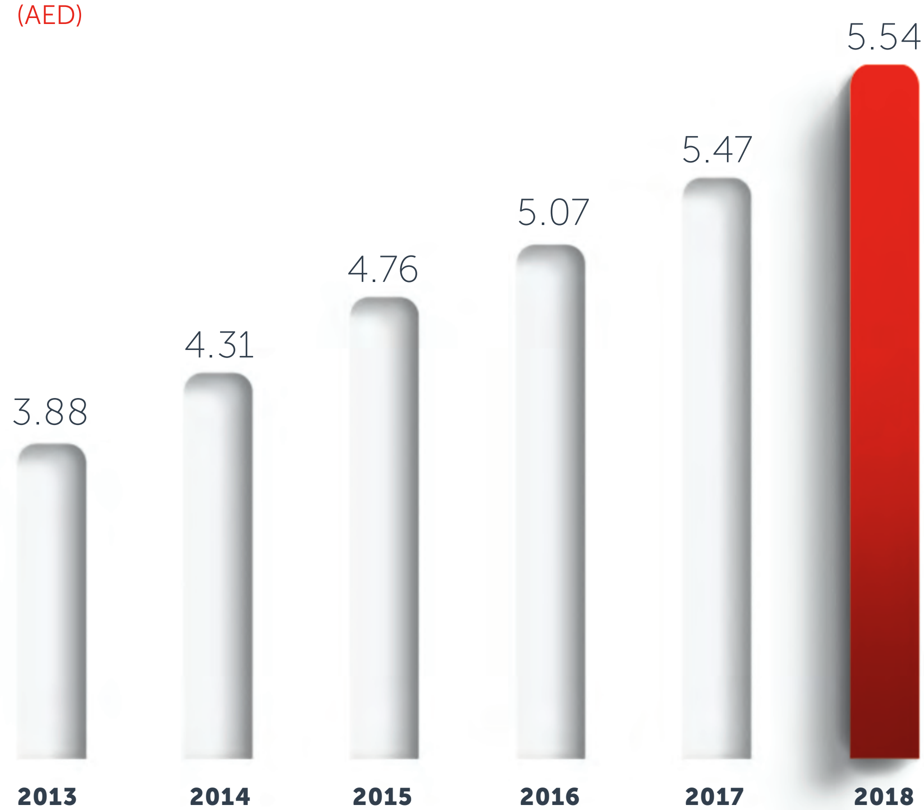

rview

CHAIRMAN'S MESSAGE

On behalf of ADCB's Board of Directors, I am pleased to report a robust performance for the Bank in 2018. While much has changed over the past decade, both in the banking sector and within ADCB, we have adhered to a successful strategy that continues to yield positive results.

Eissa Mohamed Al Suwaidi
Chairman

BOOK VALUE PER SHARE
(AED)



NET PROFIT
(AED Billion)

4,840

RECORD OPERATING INCOME
(AED Billion)

9,181

We are now on the cusp of another significant moment in our history as we prepare to merge with Union National Bank (UNB) and then together acquire Al Hilal Bank. This is a very exciting transaction that will create a larger, preeminent and resilient banking group. It is a landmark deal for the UAE that will contribute significantly to our national ambitions. The transaction is subject to the approval of regulators and shareholders.

Our governance focus, and prudent approach to risk management have helped pave the way for this merger. The Board's role has been pivotal in ensuring that our governance framework adheres to international best practices and in building ADCB's strong culture. This has shielded ADCB from the harsher impacts of the global economy and delivered safe and sustainable growth. Please read more in my introduction to the Corporate Governance section on page 88.

In 2018, despite continued economic headwinds, our net profit increased 13% year on year to AED 4.840 billion. Our positive performance was supported by a record operating income of AED 9.181 billion, up 3% over the prior year. All other significant performance metrics remained healthy.

While the economy benefitted from higher oil revenues and increased production as well as a boost from VAT revenue, consumer demand was still soft, and growth remained muted. Non-oil GDP was broadly stable, and investment activity picked up as the year progressed.

Against this backdrop, we continued our cautious approach and remained focussed on our strategy.

SHAREHOLDING STRUCTURE

CORPORATE CULTURE

An important responsibility of your Board is to nurture an active and healthy corporate culture, and this remained a priority in 2018. Guided by our shared values, we continually seek to promote a responsible and diverse culture where our employees consistently do the right thing for customers. This approach drives trust, which in turn underpins our success and supports our long-term sustainability. It also supports our commitment to exceptional customer service, helping to define ADCB as a bank that truly stands out from its competitors.

We held 61 full Board or Committee meetings in 2018. During those meetings your Directors engaged constructively with management, guiding and challenging their decisions in a spirit of openness and transparency. We have continued to emphasise the importance of transparency, particularly in our communications with stakeholders.

RECOMMENDED DIVIDEND

ADCB continues to deliver value. For the past decade, the Bank's dividend has continued to grow. For the 2018 financial year, the Board has recommended a cash dividend of AED 0.46 per share, translating to a payout of AED 2.391 billion, equivalent to 49% of net profit. This dividend payment is subject to approval at the annual general meeting.

LOOKING AHEAD

As we have continued to grow, we have transformed the Bank to provide customers with an even greater choice of products and services and an outstanding banking experience. At the same time, our shareholders have benefitted from the creation of long-term, sustainable value.

In 2019, we will continue to build on this. If the merger is approved by regulators and shareholders, a new Board will be appointed. That Board will be responsible for bringing together the best of the institutions merging into a new bank. It will be critical for the Board to safeguard the governance framework and culture that we have developed. These have provided us with the foundations for our success and underpinned the integrity of the Bank and its enduring reputation.

As the new Bank takes shape, it will also be vital for the new Board to oversee a disciplined approach to all aspects of the integration process. Capturing synergies to reduce costs and drive efficiencies and ensuring a smooth transition for customers will be critical components to create a robust new business in the coming months and years.

Meanwhile, the objectives enshrined in our five strategic pillars remain clear and relevant, and we are committed to supporting our ongoing digital transformation. While we expect much to change in the next year, the culture and values that have delivered ADCB to this point will not change.

RECOMMENDED DIVIDEND PER SHARE (AED)

0.46

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.

I also thank our shareholders, each and every one of our valued customers, the ADCB executive management team and all our staff for their continued dedication and support.

Eissa Mohamed Al Suwaidi
Chairman

ECONOMIC OVERVIEW

The UAE remains one of the most resilient economies in the region, supported by its diversified economy and a strong foreign exchange reserve position.

Throughout 2018, the economy benefitted both from a rise in oil prices and the Government's proactive fiscal strategy. This important series of structural reform initiatives will help the economy by creating an environment for sustainable growth.

This year, increased Government spending helped to support growth, strengthen competitiveness and ease the burden on corporates seeking to reduce costs and increase efficiencies for their businesses in an increasingly competitive market.

The introduction of VAT in January 2018 was a vital component of the fiscal reform strategy, which will help to diversify government revenue and support fiscal sustainability, generating additional revenue to support future investment.

The inflation rate has remained soft, reflecting a number of headwinds facing the economy, such as the correction in the real estate market and the weak domestic demand. The strength of the US dollar helped to contain imported inflation but has impacted the competitiveness of key non-oil sectors externally, often resulting in price discounting, and squeezing margins still further.

Nevertheless, the non-oil sector, which accounts for almost 70% of the UAE's GDP, has seen measured growth in 2018.

INVESTMENT ACTIVITY

The sector continues to be driven by key government objectives and the strengthening of investment activity across the year, primarily driven by the lead up to Expo 2020 in Dubai.

Project awards also gathered momentum in 2018 and Abu Dhabi, in particular, felt the positive effects of this revival. Major projects, such as the upgrade to the Ruwais Refinery and the development of offshore fields, have helped to drive this increase and laid the foundations for robust investment growth.

We expect this momentum to continue throughout 2019. As well as the construction projects linked to Expo 2020, Abu Dhabi will benefit from Abu Dhabi National Oil Company's (ADNOC) plans to invest in developing both upstream and downstream operations over the next five years. This is set to fuel additional related project awards to support this growth.

CONSUMER CONFIDENCE

Consumer confidence remained muted with demand for retail credit weakening. Higher prices, combined with continuing uncertainty in the labour market, prompted consumers to take a more disciplined approach to day-to-day spending and to keep a careful watch on their wallets.

The hospitality, real estate and retail markets were impacted as a result of soft demand and rising supply. Oversupply in these sectors has resulted in the decline of property prices and rental yields, impacting demand. Both domestic and international demand remained weak and real estate prices contracted. There was a more significant fall in property sale prices in Dubai than in rental rates, but both seem set on a downward trend.

Tourism remained resilient, though the pace of growth moderated as the boost from the earlier visa liberalisation faded.

BANKING SECTOR LIQUIDITY

Banking sector liquidity remained ample as the loan-to-deposit ratio declined to a four-year low, reflecting the outpacing of deposit growth to credit growth. The key driver for this liquidity was higher Government deposits, which reached a multi-year high in 2018 as the price of oil increased. Government related entities (GREs) also helped to strengthen total net deposits to underpin liquidity across the sector.

This liquidity is helping to limit the positive spread between the EIBOR and LIBOR rates from historical levels, though they have widened from the small differential seen in early 2018. Meanwhile, the UAE Central Bank continued to raise benchmark rates in line with the US Federal Reserve.

LOOKING AHEAD

We expect the Government's proactive fiscal policy to remain a decisive factor in 2019, continuing to drive growth in the region and serving to reinvigorate the economy through direct spending measures to boost competitiveness and a pipeline of large-scale infrastructure projects.

Meanwhile, a number of domestic and international pressures are likely to continue and remain challenging. The lower oil price forecast for 2019 will result in the reduction of export income, and we see external risks rising with factors such as the trade tensions between the US and China and the forecast slowdown in global growth. Nevertheless, we expect the UAE's fundamental position to remain strong.

The steady strength of the dollar, coupled with the slowing pace of global growth and a continuing contraction of the domestic housing market, look set to be key challenges for the economy.

Any softening in the global growth outlook is also expected to be a challenge to the trade and logistics sectors in the UAE given its role as a worldwide transhipment hub. Nevertheless, the economy is well-positioned to weather any headwinds it may face as it continues to regain its strength.

BUSINESS MODEL

VALUE CREATION AND DISTRIBUTION

OUR RESOURCES

CUSTOMERS

EMPLOYEES

TECHNOLOGY

BRAND

CULTURE

VALUES

HOW WE OPERATE

We develop banking **products** for our varied customer base and **distribute** them through our four business units:

WHOLESALE BANKING

CONSUMER BANKING

BUSINESS SUPPORT

PROPERTY MANAGEMENT

TREASURY AND INVESTMENTS

All of which is underpinned by strong **risk management** and **governance.**

Our longstanding and successful business model is designed to capture the opportunities that allow us to create sustainable value for all our stakeholders. It is built on a loyal and high-performing workforce, a resolute focus on providing an outstanding customer experience, and delivering the products, services and technology that make banking faster, easier and more secure.

WE CREATE FINANCIAL VALUE

REVENUE

PROFIT

SHARE PRICE

TO DISTRIBUTE AMONGST OUR STAKEHOLDERS

CUSTOMERS

EMPLOYEES

COMMUNITIES

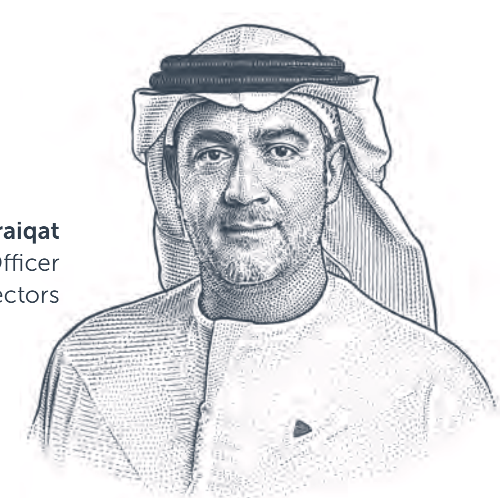
INVESTORS

REGULATORS


Strategy

GROUP CEO'S MESSAGE

I am proud to be part of an exceptional team of talented people across ADCB. Together, we have delivered a strong set of results for all our stakeholders in 2018.



Ala'a Eraiqat
Group Chief Executive Officer
Member of the Board of Directors

NET PROFIT INCREASED BY

13%

OVER 2017

RETURN ON EQUITY 2018

16.3%

CASA AS % OF TOTAL CUSTOMER DEPOSITS

39%

When I was entrusted to lead the Bank 10 years ago, I was energised by an ambitious vision for our future. Working with a passionate executive team and a strong Board, we seized the opportunity to create something new, something bold—a bank with a clear, unwavering focus on our customers and our country. I would like to thank the Board for their strong and continued support, trust and guidance which has helped to set the tone from top to bottom in terms of our culture and ability.

The result is the Bank you know today. A highly-successful financial institution with solid capital strength, an award-winning brand and a high-performing workforce. Motivated by our ambition and guided by rigorous discipline, we were able to deliver steady growth and create sustainable value for our stakeholders despite the headwinds of global economic volatility.

The pages that follow will tell you the story of this year's success. I am pleased to say that net profit increased by 13% over 2017, while our quarterly net profit surged 27% over the prior year to a record high. The return on average equity lifted to 16.3% from 15.0% in 2017. We once again enjoyed measured growth, created substantial shareholder value and delivered strong metrics. Our loans and deposits increased, and our current and savings account (CASA) deposits comprised 39% of total customer deposits.

This is a culmination of a vision that began a decade ago, which has delivered exceptional returns. Our shareholders have benefitted from an extraordinary 10-year total shareholder return of 520%. At the same time, we have seen asset growth of 89% and a 256% rise in net profit since 2008. These figures illustrate the strength of our strategy and our commitment to creating long-term value.

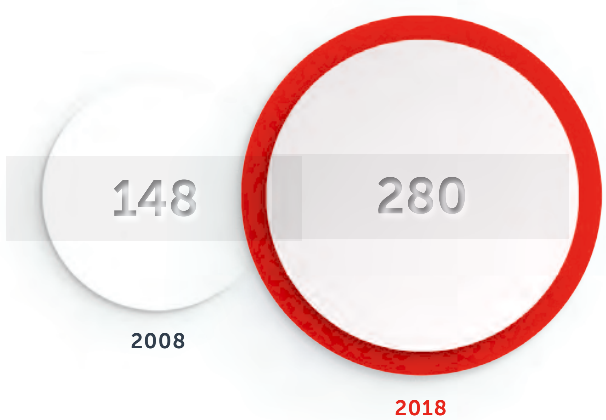
Our operating environment continues to be influenced by rapid changes in technology, transforming customer expectations and behaviour. The banking sector is now increasingly a digital-first environment and we have been active in providing new ways for our customers to connect with us.

As a result, and in line with our clear and compelling strategy around digital development, we have embarked on a transformation programme across the Bank. We are committed to enhancing the customer journey to provide an exceptional experience and enable faster and more secure banking for all our customers. We will continue to invest in technology, talent development and IT security to cement our position as a progressive player in this evolving environment.

This digital acceleration has continued to help us expand and improve our services as well as providing a valuable opportunity to engage with our customers on a uniquely personal level. This year we further refined our digital platforms and launched a number of new apps to make banking more convenient and immediate. You can read more about our digital initiatives and journeys in the Business Review—Group Business Services section on page 73.

TOTAL ASSETS
(AED Billion)

+89% INCREASE SINCE 2008



NET PROFIT
(AED Billion)

+256% INCREASE SINCE 2008

STRATEGY IN ACTION

None of our successes happened by chance. They have been driven by an ambitious strategy, delivered through our determined commitment to excellent customer service, and through our shared values of integrity, care, ambition, respect and discipline.

It is our adherence to our long-term strategy, with its five key pillars, that has generated the resilience necessary to confidently navigate the ups and downs of the global economy. We review our strategy on a regular basis, and last year digital transformation was incorporated as one of our pillars to reflect the growing move to digital-first in the banking sector.

With an unrelenting focus on serving the UAE, and by placing our customers at the heart of everything we do, we stand apart from our competitors, providing our customers with a high level of knowledge and skill that is second to none. It is a strategy that has supported our ambition, helping us enhance the lives of our stakeholders and creating a real and valuable point of difference from other financial institutions.

OUR PEOPLE

In many respects, working at ADCB is more of a lifestyle than just a job. Perhaps that is why we have one of the highest employee engagement scores of any bank—not just in the UAE, or even regionally, but across the world. In fact, the level of engagement ranks amongst the top of high-performing organisations in the Fortune 500.

This is an achievement of which we can be rightfully proud. It demonstrates the quality and clarity of our purpose, ambition, and leadership across the Bank.

Another source of personal pride for me is that in 2018, Siddiqa Abbas joined our Management Executive Committee. As the first Emirati woman on the Committee, Siddiqa brings a wealth of experience to her new role as Chief Operations Officer and a 14-year heritage of achievement at ADCB.

Siddiqa represents exactly the high-calibre of skills, experience and innovative thinking that serves to differentiate us.

We recognise the importance of diversity in the Bank. We have also seen a significant increase in the number of women joining the Bank and moving into leadership roles. More than 39% of our workforce is female with 29% of middle and senior management roles held by women.

We are also proud to continue to lead the way in Emiratisation in the banking sector and we continue to exceed the Central Bank’s requirement on Emiratisation points which covers recruitment, development and progression of UAE national talent.

10-YEAR TSR

520%

39%

FEMALE WORKFORCE

Attracting and retaining top talent is fundamental to our success and is one of the ways that helps us to provide such a consistent customer experience.

SOCIAL ENGAGEMENT

Our success also means helping others. We are committed to promoting financial literacy to empower the next generation and to help contribute to the economy and stability of the UAE.

Through our longstanding partnership with the Emirates Foundation, we continue to work hard to raise levels of financial awareness, especially with young adults through our MoneySense programme.

We also play an important role in encouraging the adoption of responsible lending and sound financial management practices across the UAE. You can read more about this and other initiatives in the Sustainability section on page 78.

BEYOND AMBITION

Having achieved so much, there is no better time to move beyond ambition.

Our merger* with Union National Bank, and the combined Bank's acquisition of Al Hilal Bank, represents a new dawn for our Bank and our people. It brings with it new possibilities and exciting opportunities that we are well-placed to capitalise on.

We can be rightly proud of our impressive track record of financial stability, consistently delivering strong returns to our shareholders. Our deep expertise, positive culture and robust governance helped us fulfil our ambition and set the standard for the UAE banking sector.

These attributes will serve us well as we move beyond that ambition to truly transform the banking sector across the UAE. They will enable us, in this new era, to deepen our engagement with our employees, better connect with our customers, create even more value for our investors, give more support for communities, and deliver an extremely powerful contribution to the next stage in the development of the UAE economy.

OUR LEGACY

A decade on, and I remain just as energised about the mission before us today. I am honoured by what we have delivered together, and passionate about our future. I am also very proud of the successful, resilient and customer-centric Bank that we have built together as a team. Striving for excellence is—and will continue to be—embedded in our DNA.

As we embark on a new and exciting chapter in our story, I am looking forward to leading ADCB into a successful, long-term future we can all be proud of. Again I would like to thank the Chairman, members of the Board and the executive management team for their support and acknowledge all the people, including our employees, who have worked so hard at every level to get us to where we are today. By working together we will build on our rich heritage and journey beyond ambition.

Ala'a Eraiqat
Group Chief Executive Officer
Member of the Board of Directors

* Subject to regulatory and shareholder approvals

OUR 10-YEAR JOURNEY

We have travelled beyond the ambition we set ourselves a decade ago so that, guided by a clear strategy and a strong and consistent leadership team, we have repeatedly delivered solid results across multiple metrics.

(AED Billion)	2008	CHANGE %	2018
TOTAL ASSETS	148.4	+89	279.8
NET LOANS	109.1	+53	166.4
CUSTOMER DEPOSITS	83.0	+113	176.7
NET PROFIT	1.4	+256	4.8
RETURN ON EQUITY (%)	12.0	+4	16.3
LOAN-TO-DEPOSIT RATIO (%)	131.4	-37	94.2
TIER 1 (%)	11.4	+4	15.3
CAPITAL ADEQUACY RATIO (%)	11.4	+6	17.3
EARNINGS PER SHARE (AED)	0.26	+246	0.90
NUMBER OF CUSTOMERS	OVER 321K	+176	OVER 886K

GROUP STRATEGY

Our long-term strategy remains consistent, clear and focussed. Its five core pillars have served to underpin our success, helping to build a resilient and innovative organisation with exceptional customer service and a strong brand.

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 a predefined risk appetite
5. Exploitation of digital for growth and efficiency—leveraging data analytics

OUR VALUES

Integrity | Care | Ambition | Respect | Discipline

OUR ENABLERS

Attracting and rewarding the best talent

Agile organisation and innovative culture

STRATEGIC PILLARS

	OUR STRATEGIC PILLARS	HOW WE ACHIEVE THEM	WHAT WE DID IN 2018
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 gives us a sharp focus on the developing needs of our customers.	• Growing customer base with more than 886,000 customers, with 49 branches in the UAE • 11% market share in loans and 10% market share in deposits • 94% of our gross loans are in the UAE • Return on average equity lifted to 16.3% from 15.0% in 2017
2	Sustainability through liability growth and funding diversification	We have a diversified liability base with increasing customer deposits. Loan growth is funded through growth in customer deposits, which resulted in a significant improvement in our loan-to-deposit ratio since the launch of our strategy.	• Customer deposits increased by 8% over 2017 to AED 177 billion, comprising 72% of total liabilities • CASA deposits were at AED 70 billion • Loan-to-deposit ratio improved to 94.2% • Wholesale funding comprised 19% 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 next page) • 30% of every employee's performance objectives are measured against customer service
4	Effective risk-taking and management in line with a predefined 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 improved to 0.57% from 0.81% in 2017 • Enhanced Bank-wide controls and security • Created a new role of Group Chief Credit Officer
5	Exploitation of digital for growth and efficiency—leveraging data analytics	We harness digital technology to simplify the client experience and improve the 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 MoneyBuddy and My Choice • More than 95% of retail financial transactions done electronically • Self-service rates in Wholesale Banking were at all-time high, with 90% of all transactions migrated to digital channels

	ENABLED THROUGH	
	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	2017	2018
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.	183% 5-YEAR TSR	58% 5-YEAR TSR
Most profitable	**Return on average equity (ROAE)** Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity. To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.	15.0%	16.3%
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.	33.1%	33.6%
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 0.80	AED 0.90
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 below)	

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

Strategic NPS	Variation in NPS Points from 2015
Corporate	+43
Retail	+18
Treasury & Investments	+28

In 2018, we invested in the following areas to enhance customer experience:

1,848 STAFF TRAINED IN SERVICE	102,112 CUSTOMERS SPOKEN TO FOR FEEDBACK	1,074 CUSTOMERS' FEEDBACK ON DIGITAL PRODUCTS
33,114 STAFF PROVIDED FEEDBACK ON INTERNAL SERVICE PROVIDERS	8,348 MYSTERY SHOPPING AUDITS	15 CUSTOMER EXPERIENCE AND SERVICE QUALITY FORUMS

RISK MANAGEMENT

Risk management is a critical part of our successful strategy, protecting the Bank and enabling us to grow more effectively and with greater security.

Risk is an integral part of our business and decision-making process. Our performance depends on our ability to manage risk at every level. As a consequence, we have a robust risk management governance structure and framework that allows us to maintain a crucial balance between risk and reward.

This framework is shown below:

CORPORATE GOVERNANCE STRUCTURE

Board

Board Committees

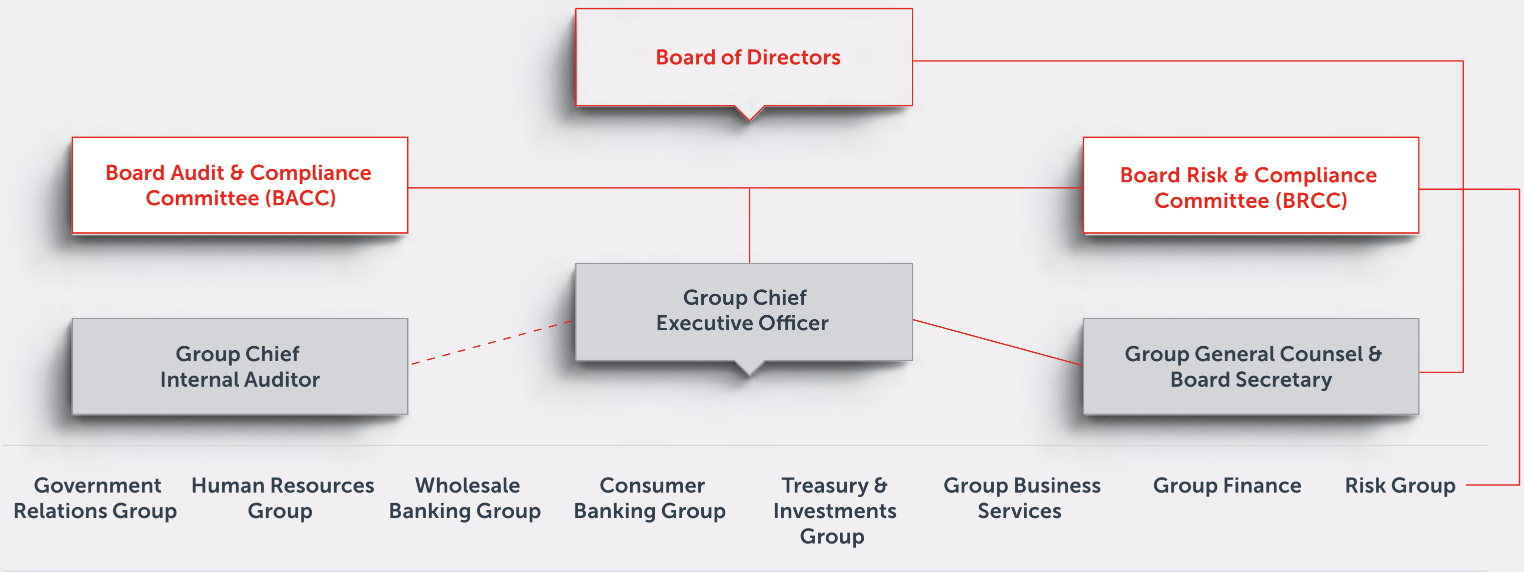
- Audit & Compliance Committee
- Risk & Credit Committee
- Corporate Governance Committee
- Nomination, Compensation & HR Committee

Management Committees

Management Executive Committee (MEC)

- Management Recoveries Committee (MRC)
- Liabilities & Initiatives Committee (LICO)
- Senior Management Committee (SMC)
- Assets & Liabilities Committee (ALCO)
- Capital Expenditure Committee (CEC)
- Management Human Resources Committee (MHRC)
- Management Risk & Credit Committee (MRCC)
- Financial Performance Management Committee (FPMC)
- International Operations & Alliances Committee (IO&AC)

STRUCTURE AND COMPOSITION



The Group Chief Risk Officer, who is part of ADCB's Executive Management team, attends meetings of each of the four Committees that report to, and support, the main Board.

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.

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. We have a strong risk culture, anchored to our strategy, and all staff are responsible for highlighting and managing potential risks in the course of their work. We reinforce individual accountability through a focus on the Three Lines of Defence model.

In this model, as depicted on the right, management control is the first line of defence in risk management, our various risk control and compliance oversight functions are the second line of defence, while independent assurance—our internal audit team—is the third.

01 **1st Line of Defence**
Business Line management responsible for identification and control of risks

02 **2nd Line of Defence**
Control function of risk management and compliance

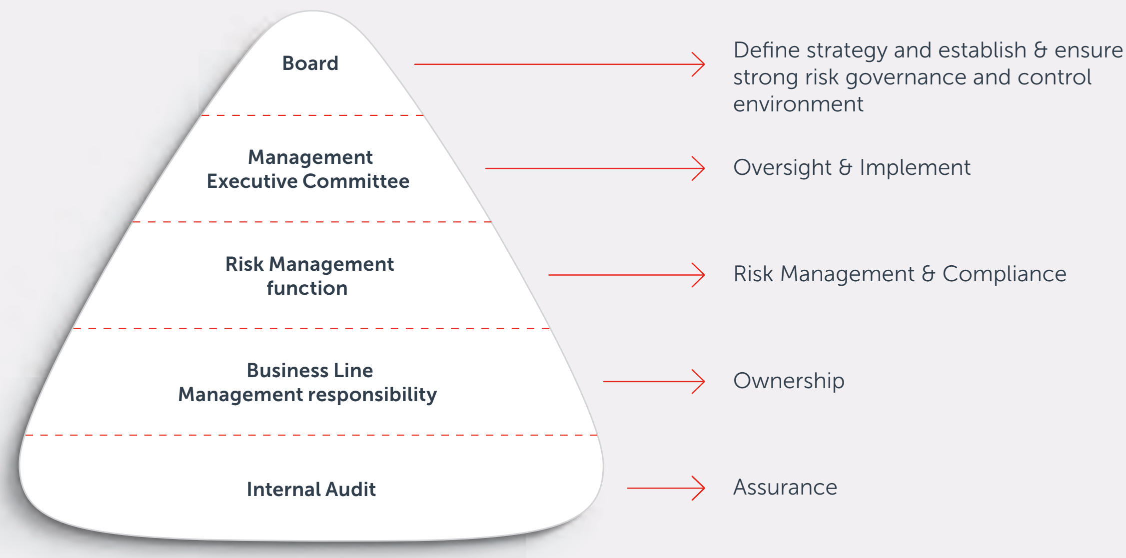
03 **3rd Line of Defence**
To provide independent assurance

As part of our continued efforts to improve the enterprise risk management operating model and in line with financial services best practices and regulatory guidelines, during 2018 the Bank took the opportunity to create a new role of Group Chief Credit Officer. The position reports to the Group CEO with full access to the Board Risk and Compliance Committee, and is a member of the Management Executive Committee and the Management Risk Committee. The functions that report into this new role include Corporate Credit, Retail and Commercial Credit, and Wholesale Credit Operations.

The Chief Risk Officer role continues to cover: Risk Management, Market Risk, Compliance, Operational Risk, Fraud, Policy & Portfolio governance and recently incorporated the function of Information and Physical security.

The roles and responsibilities for each function are set out in the graphic below.

ROLES & RESPONSIBILITIES (RISK GOVERNANCE)



In 2018, under the direction of a newly-appointed Group Chief Risk Officer, the Bank identified, reviewed and refreshed its 10 principal risks and how each one is monitored. You can read about each of these principal risks in greater detail on page 43.

We continue to invest in our risk management capabilities to strengthen our approach. This year we engaged a number of external consultants and subject matter experts to review, test and approve our internal processes and policies, including information security/cybersecurity, compliance and credit and expected loss model validation.

2018 marked the introduction of IFRS 9 Accounting Standard relating to approach to provisions for credit risk. In the lead up period, ADCB developed models to drive the provision assessments for both retail and wholesale portfolios. These modules were successfully deployed in 2018 with relevant provision and staging trends, by line of business and the various portfolio segments, tracked and reported to management and Board Committees. Our predictive capabilities have been enhanced via in-house development of early alert dashboards and we have extended the use of Etihad Credit Bureau score to assist in decisions within the Commercial Business. We also initiated standardised enterprise-wide stress tests and reverse stress tests. At the same time, we provided staff with a range of technical training and risk awareness programmes.

We consistently monitor the impact of international developments and domestic challenges on our portfolio and adapt our approach accordingly. One of the ways we are improving the quality and speed of our response to emerging risks and regulatory reporting requirements, for example, is by investing in automation and upgrading our internal information management systems. This helps to ensure that our risk management practices remain best-in-class.

CAPITAL PLANNING PROCESS

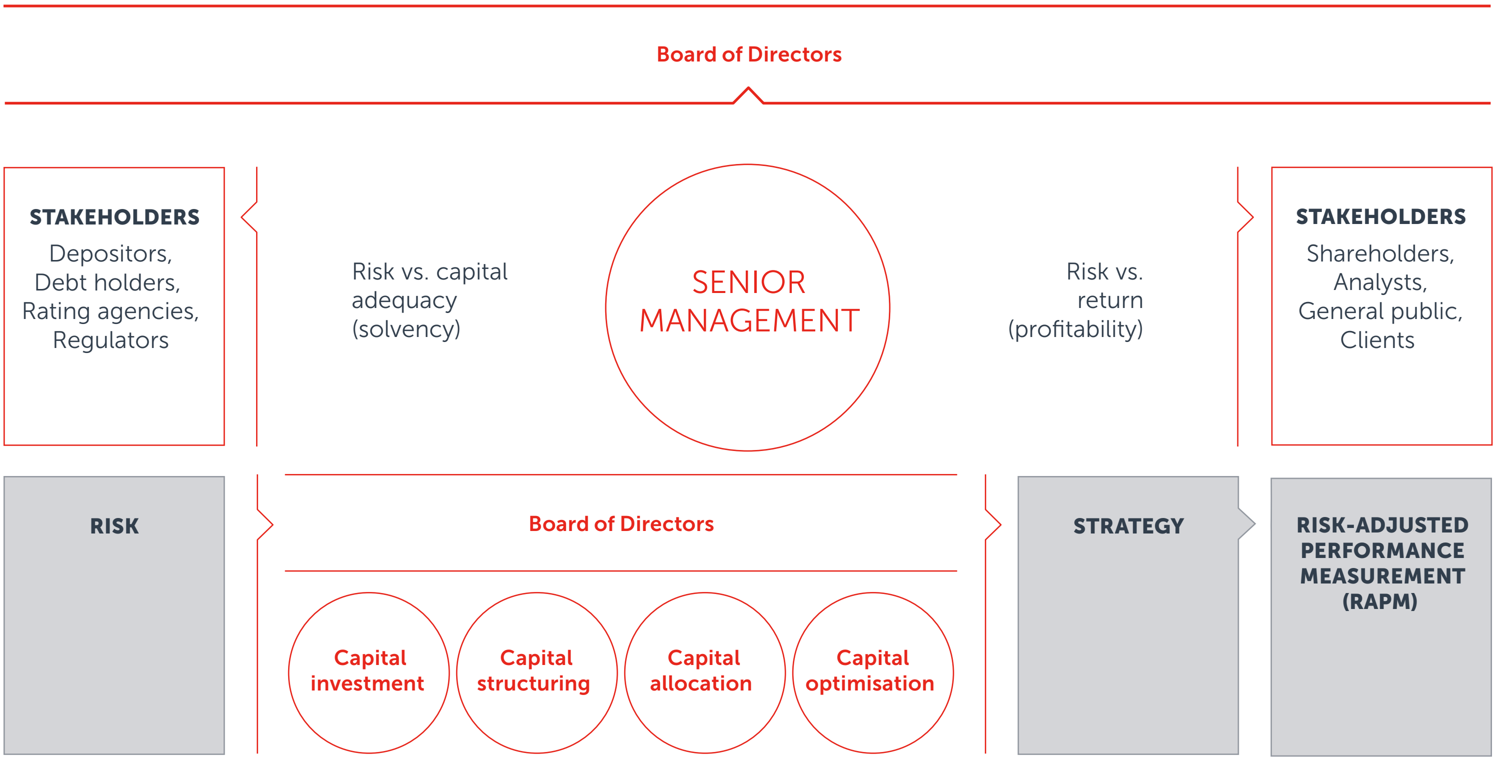
Regulators view the systemic risk of bank failures very seriously. The loss they can cause to depositors and the costs of bailouts by the government can be substantial, and as a result, the capital structure of banks is subject to rigorous regulation. The Basel Accords focus on risk management in banks and link the business profile of banks to their risk profiles and subsequently to regulatory capital. Hence, the Bank places 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 provide a cushion against expected losses.

For a more detailed study of our Risk management, see our separate Basel III—Pillar III report.

DIAGRAMMATIC VIEW OF THE CAPITAL PLANNING PROCESS



METHODOLOGIES, POLICIES, PROCESSES, GOVERNANCE AND INDEPENDENT ASSURANCE

OUR RISK PERFORMANCE

KPI	2017	2018
Capital		
Common equity tier 1 (CET 1) ratio	13.96%	13.40%
Liquidity		
Liquidity coverage ratio (LCR)	135%	186%
Deposit concentration (Top 10 depositors)	24.4%	26.0%
Credit		
Investment grade exposures as a % of total exposures (excluding unrated)	*	66%
Loan-to-value ratio of retail mortgages	73%	72%
20 largest customer loan exposures as a % of gross loans	34.85%	36.58%
Non-performing loan (NPL) ratio	2.12%	2.88%
Provision coverage ratio	162.9%	130.2%
Cost of risk	0.81%	0.57%

EXTERNAL RISK SCENARIOS

As part of our risk management strategy, we regularly identify and monitor external risks. These are events that could lead to a significant, unexpected adverse outcome that could cause the Bank, or one of its divisions, to fail to meet its strategic objectives.

When we assess the potential impact of an external risk, we consider both financial and reputational implications. This section describes the categories of external risks that could materially affect the UAE banking system and ADCB: 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.

We track external risks closely and have augmented our related IT risk infrastructure accordingly.

EXTERNAL RISK: MACROECONOMIC CONDITIONS IN THE OPERATING MARKETS

DEFINITION AND POTENTIAL IMPACT:

Prolonged volatility in the price of oil will affect the UAE economy and the GCC countries' economies. Most analyst reports forecast a slowdown in the GDP growth rates and an associated period of lower credit growth.

MITIGATION STRATEGY:

The UAE economy is well-diversified across non-oil sectors, which will help partially mitigate the impact of lower oil prices in the banking system. ADCB has more than 90% of its loans in the UAE and therefore expects to be a principal beneficiary of this strategy compared to peer banks with more geographically diverse asset books within the MENA region. ADCB's portfolio diversification, in terms of investment in non-GCC bonds, lending to diversified industry groups, and focus on granular and well-structured lending, is expected to soften the impact of macroeconomic conditions.

* As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures

EXTERNAL RISK: GEOPOLITICAL RISK

DEFINITION AND POTENTIAL IMPACT:

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.

MITIGATION STRATEGY:

The Bank regularly monitors geopolitical and economic situations around the world. In particular, ADCB's Chief Economist assesses the economic impact of changing geopolitical risks and provides vital inputs to drive the Bank's strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and to mitigate these risks.

EXTERNAL RISK: REGULATORY AND LEGAL RISKS TO OUR BUSINESS MODEL

DEFINITION AND POTENTIAL IMPACT:

Governments and regulators often develop policies that impose new requirements, the recent VAT implementation being a key example. These developments may affect our business model and profitability. Should a regulatory change reduce the Bank's ability to respond to any of our customers' needs or to achieve fair customer outcomes, we may experience increased costs and reputational damage.

Moreover, 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.

MITIGATION STRATEGY:

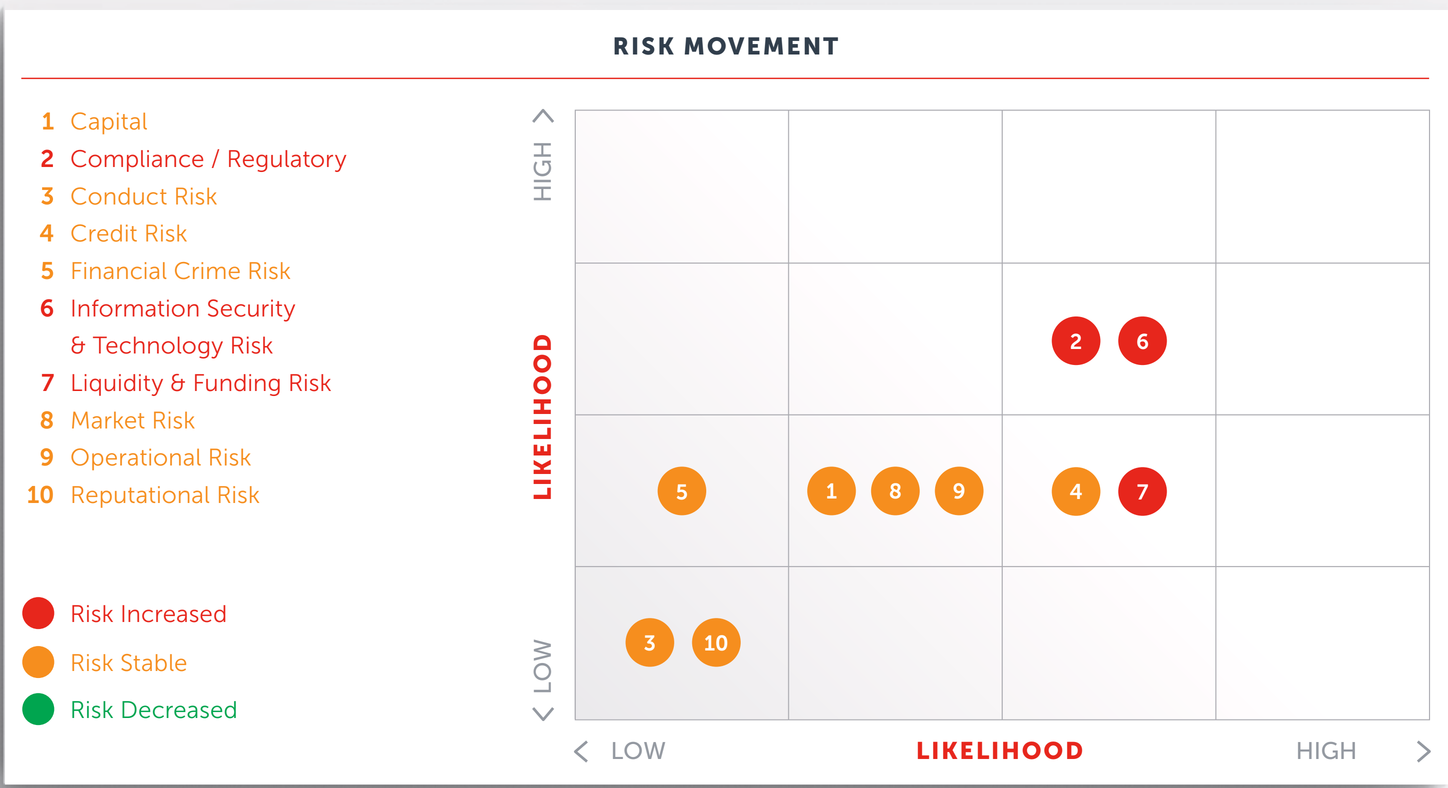
We strive to ensure that the Bank's views are considered when UAE regulatory policy is developed. ADCB chairs, or is a member of, several UAE Banks Federation forums. Internally, we analyse all new draft regulations or circulars to measure their impact qualitatively and quantitatively as well as to ensure 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.

PRINCIPAL RISKS AFFECTING ADCB AND RISK COVERAGE

The principal risks faced by ADCB are presented in the following pages, together with a summary of the critical areas of focus and how the Bank managed these risks in 2018. Metrics are assigned to each of these areas and reported via a dashboard to the Board using a Red/Amber/Green approach. This facilitates focus and discussions on the right areas as well as providing trends over time.

The heatmap, below, demonstrates our assessment of principal risks in 2018 in comparison to 2017. We have plotted each risk in terms of potential impact and likelihood to provide a baseline, which we will use as a benchmark for future years. This assessment takes into account our internal control environment with outcomes depicted below:



CAPITAL RISK

DEFINITION:

ADCB defines capital risk as the potential for: (i) insufficient level or composition of capital to support our 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 (shareholders, debt holders and rating agencies) to support operations and risk appetite.

APPROACH:

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 there will be sufficient capital coverage at all times. We also have a proactive approach to liquidity risk, which includes monitoring of positions, regular stress testing, and buffers in excess of the Basel requirements.

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

DEFINITION:

ADCB defines compliance/regulatory risk as the potential for impact and exposure to regulatory sanctions, or loss from a failure on our part to comply with regulatory requirements, laws or industry standards.

APPROACH:

We are committed to acting in accordance with our compliance standards, laws, regulations and industry standards, as well as internal policies and sound corporate governance principles. Identified breaches will be 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

DEFINITION:

ADCB defines conduct risk as the 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.

APPROACH:

We will maintain the standards in our code of conduct and core values (Integrity, Care, Ambition, Respect and Discipline), by continuously demonstrating that we "Do the Right Thing" in the way we conduct business and assess outcomes through real-time customer feedback.

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 people 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.

The Bank relies on motivated, diverse and high-quality staff to perform its functions. We foster an environment where employees are empowered to the full extent of their abilities and one where our top talent retention rates are consistently high and above the industry standard.

We are also committed to treating our customers fairly by operating with transparency and providing clear information on products and services, managing conflicts of interest related to these services, avoiding mis-selling and having a rigorous process to ensure products and services we sell are suitable to customers.

ACCOUNTABLE EXECUTIVES:

Management Executive Committee members

ACCOUNTABLE COMMITTEES:

MEC, CGC, NCHR, BACC, Board

CREDIT RISK

DEFINITION:

ADCB defines credit risk as the 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.

APPROACH:

We manage our credit exposures by having a sound analytical framework, focusing on analysis of cashflows and taking into account the legal framework in which the Bank and borrower operates.

We manage credit risk carefully by applying a set of criteria and policies to lending, confining our dealings to clients of good creditworthiness and ensuring facilities are appropriately secured, wherever feasible. 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 to be taken to reduce our unsecured lending.

ACCOUNTABLE EXECUTIVE:

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

ACCOUNTABLE COMMITTEES:

MRCC, BACC, SBRCC, Board

FINANCIAL CRIME RISK

DEFINITION:

ADCB defines financial crime risk as the 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.

APPROACH:

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

INFORMATION SECURITY AND TECHNOLOGY RISK

DEFINITION:

ADCB defines Information Security and Technology Risk as the 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.

APPROACH:

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 happening.

ACCOUNTABLE EXECUTIVES:

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

ACCOUNTABLE COMMITTEES:

MEC, BRCC, Board

LIQUIDITY & FUNDING RISK

DEFINITION:

ADCB defines liquidity risk as the 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.

APPROACH:

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 to lose 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 EXECUTIVE:

Treasurer, Group Chief Risk Officer

ACCOUNTABLE COMMITTEES:

ALCO, BRCC, Board

MARKET RISK

DEFINITION:

ADCB defines market risk as the 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.

APPROACH:

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

DEFINITION:

ADCB defines operational risk as the 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 as well as damage arising from inadequate or failed internal processes, people and systems.

APPROACH:

We control operational risks to ensure that fraud and operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Bank.

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 four levels of operational risk severity rating: minor, moderate, significant and major, whereby minor risk would lie within the Bank's appetite, and major constitutes a threat to the Bank's ability to continue operations.

The Bank mitigates these risks at all times, balancing the cost of maintaining a controlled environment against the impact and likelihood assessment of a risk happening.

ACCOUNTABLE EXECUTIVES:

Head of Operational Risk, Business Heads, Group Chief Risk Officer

ACCOUNTABLE COMMITTEES:

MEC, BACC, BRCC, Board

REPUTATIONAL RISK

DEFINITION:

ADCB defines reputational risk as the potential adverse effects that can arise if the Bank's reputation is damaged due to factors such as unethical practices, breach of law or regulation, customer dissatisfaction and complaints or adverse publicity.

APPROACH:

We protect the firm 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 (MEC) members

ACCOUNTABLE COMMITTEES:

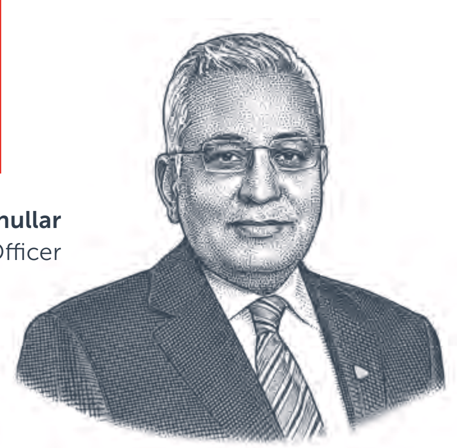
BACC, Board


AGILE
INNOVATION
CREATIVITY
MOBILE
AMBITION


Performance

GROUP CFO'S MESSAGE

Driven by ambition and guided by discipline, ADCB has once again demonstrated the leadership, strength and resilience required to deliver a strong return for our shareholders.



Deepak Khullar
Group Chief Financial Officer

NET LOANS
(AED Billion)

DEPOSITS
(AED Billion)

Figures may not sum exactly to the totals because of rounding.

By adhering to our tried and tested long-term strategy, I am pleased to report a strong set of results, with top and bottom-line growth. Against the backdrop of an exacting market, we saw our operating income rise by 3% to AED 9.181 billion, while we generated a net profit of AED 4.840 billion, up 13% on last year. The return on average equity also lifted to 16.3%, up from 15.0% last year, delivering stronger shareholder value.

ADCB has consistently maintained a strong dividend payout ratio of around 50%. This year's recommended cash dividend of AED 0.46 per share is equivalent to a payout of AED 2.391 billion and represents 49% of net profit.

These results reflect the quality, stability and efficiency of our management, which has successfully balanced earnings generation across all our different business segments. Together with our vigilant approach to risk and our adherence to a world-class governance framework, ADCB remains resilient against any economic headwinds that come our way.

ENDURING STRENGTH AND CAPITAL RATINGS

As one of just four banks in the UAE designated as systemically important, we remain well-capitalised, with a CET1 ratio of 13.40% and a Basel III capital adequacy ratio (CAR) of 17.26%, while our return on average equity continues to improve. The marginal annual fall in our capital adequacy ratio was primarily as a result of last year's dividend payout, IFRS 9 adjustments, an increase in credit risk weighted assets and part repayment of Tier 2 capital.

Our liquidity remains strong, with a liquidity coverage ratio (LCR) of 186%, compared to the minimum of 90% prescribed by the UAE Central Bank. Our liquidity ratio increased by 3.8% on last year to 28.3%, driven by a rise in deposits and balances due from banks and an increase in quoted investments. This year, ADCB was a net lender of AED 15 billion in the interbank markets. Despite the increased cost of carrying high-quality liquid assets to meet both liquidity coverage ratios and net stable funding ratios (NSFR), our net interest margin saw a positive lift to 3.04% from 2.91% in 2017.

This liquidity gives us the capability to withstand the impact of any severe deterioration in macroeconomic and financial market conditions and is fundamental to our success in passing all the UAE Central Bank's stress tests.

As a result, we remain a highly-rated bank with consistent scores and stable ratings from leading international agencies such as Standard and Poor (A) and Fitch (A+), both of which confirm a stable outlook for the Bank.

LIQUIDITY COVERAGE RATIO (LCR)

186%

MARKET TRENDS

A lift in oil prices and production have helped to bolster the economy, creating a financial surplus for the first time in the past three years. Investment activity is strengthening as the number of project awards rise and government spending aims to reinvigorate growth.

Yet the market is deeply challenging. Consolidation continues as corporates suffer from competitive pricing and squeezed margins. Steady decline in real estate and rental prices, in a market that is already oversupplied, is also taking its toll.

Consumer spending is down, as they remain cautious, mindful of rising interest rates and wary of the lingering uncertainty in the jobs market. This careful approach, which is settling to become the new norm, is reflected in the solid rise in deposit growth which continues to outstrip credit growth.

Against this backdrop, our balance sheet remains strong and healthy. Customer deposits increased 8% over 2017 to AED 177 billion. At a time of rising benchmark rates, we did not see any significant adverse impact on current and savings account deposits (CASA), which only contracted marginally. CASA deposits totaled AED 70 billion and comprised 39% of total customer deposits. Time deposits further increased to meet the LCR and the NSFR regulations.

BASIC EARNINGS PER SHARE (AED)

Loan-to-deposit ratio significantly improved to 94.2% from 100.1% last year.

Overall, wholesale funding, including Euro Commercial Paper, has consistently constituted around 20% of our liability base. In 2018, wholesale funding (including Euro Commercial Paper) comprised 19% of our liability base.

Meanwhile, we continued to develop diversified loan growth across all sectors, while placing a focus on increasing lending to the UAE National segment. This, combined with our ongoing drive to de-risk our unsecured retail loan portfolio, has led to an improvement in our cost of risk to 0.57% from 0.81% in 2017. Overall loan growth was at 2%, led by an increase in Wholesale Banking loans. Our profitability was bolstered by a rise in net interest rate margins and significantly lower impairment charges, which declined 24% over 2017.

PREPARED FOR TOMORROW

Our comprehensive and careful preparation in everything we do helps us to stay ahead and be ready for anything. The introduction of VAT in January, along with the implementation of IFRS 9 and new requirements for the NSFR were all challenges we were ready for and thus able to quickly embed in the business.

Meanwhile, we continue the pace of transformation across the Bank as we seek to enhance our products and services so that we are fit for the future. By continuing to invest in recruiting and retaining top talent, we are also well-prepared to create further growth and deliver ongoing improvements to our business.

At the same time, our strategic investments in customer service, operational excellence and our extensive digital programme have given greater control to our customers, empowering them to manage their money with greater speed, ease and security while securing long-term benefits for the Bank.

These accomplishments will have a short-term impact on our operating expenses, which this year increased by 5%, and nudged our cost to income ratio up to 33.6% from 33.1% in 2017. This is still well within our target range and forms part of our strategy to lay a firm and lasting foundation for significant long-term gains which will further strengthen the Bank.

Non-interest income fell by 11%, mainly driven by higher fees and commission related expenses and lower volumes. This was partially offset by a pick up in card-related fees and higher income from the merchant acquiring business along with higher trading gains.

As a result of the continuing volatility of the market and a range of economic challenges faced by corporates, our non-performing loans (NPL) increased to 2.88% from 2.12% in 2017. This was mainly driven by a few corporate accounts. Our provision coverage ratio remained strong at 130.2% as at 31 December 2018.

CREATING SUSTAINABLE VALUE

To be the number one bank of choice in the UAE, we must continue to create meaningful, long-term value for all our stakeholders, to make banking better, more accessible and safer for customers, to improve financial knowledge, to help build sustainable communities and to support both entrepreneurs and the government in creating a vibrant economy that will benefit us all.

To fulfil this purpose, we have been working tirelessly across every touchpoint of the Bank and are perfectly-placed to reap the rewards.

Our merger with Union National Bank, and the subsequent acquisition of Al Hilal Bank, will create an even more exciting future for us. The transaction, which is subject to the approval of regulators and shareholders, will create a powerful new Bank in the region which will offer significant cost synergies as well as attractive growth opportunities.

The new Bank will be in a position to provide further investment and support to its people, technology and infrastructure and, of course, to give customers an unrivalled banking experience.

Our priority now is to achieve a smooth and efficient integration, while at the same time maintaining business as usual for all our customers.

Having prepared well, we go forward into 2019 with great confidence.

Deepak Khullar
Group Chief Financial Officer

FINANCIAL OVERVIEW

Our positive performance throughout 2018 demonstrates the effectiveness of our strategy and the enduring strength and resilience of the Bank. Despite a challenging economic environment, our underlying performance and fundamentals remain strong as we continue in our mission to deliver sustainable growth and long-term value for shareholders.

The figures and charts that feature in the following pages provide a more detailed insight into our financial performance this year. They reflect our financial discipline and the prudent approach to risk management that forms a key pillar of the Bank's strategy.

Comparisons in this section are calculated for the year ended 31 December 2018 ("2018") versus the year ended 31 December 2017 ("2017"), unless otherwise specified.

2018 FINANCIAL HIGHLIGHTS

	Year on year trend			Quarterly trend				
			Change %				*Q4'18 Change %*	
Income statement highlights (AED mn)	**2018**	2017	YoY	**Q4'18**	Q3'18	Q4'17	QoQ	YoY
Total net interest and Islamic financing income	**7,219**	6,701	8	**1,803**	1,804	1,718	0	5
Non-interest income	**1,962**	2,194	(11)	**442**	490	592	(10)	(25)
Operating income	**9,181**	8,895	3	**2,244**	2,295	2,311	(2)	(3)
Operating expenses	**(3,084)**	(2,948)	5	**(740)**	(799)	(800)	(7)	(8)
Operating profit before impairment allowances	**6,098**	5,948	3	**1,505**	1,496	1,511	1	0
Impairment allowances	**(1,266)**	(1,674)	(24)	**(148)**	(347)	(441)	(57)	(66)
Share in profit/(loss) of associate	**10**	10	NA	**3**	2	3	NA	NA
Profit before taxation	**4,842**	4,284	13	**1,359**	1,151	1,072	18	27
Overseas income tax expense	**(2)**	(6)	NA	**(2)**	1	(0)	NA	NA
Net profit for the period	**4,840**	4,278	13	**1,357**	1,151	1,072	18	27

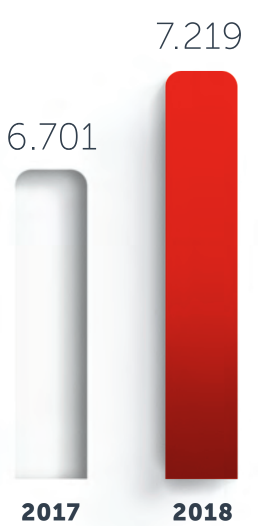
			Change %				*Change%*	
Balance sheet highlights (AED mn)	**Dec'18**	Dec'17	YoY	**Dec'18**	Sep'18	Dec'17	QoQ	YoY
Total assets	**279,830**	265,003	6	**279,830**	273,375	265,003	2	6
Net loans and advances	**166,426**	163,282	2	**166,426**	165,213	163,282	1	2
Deposits from customers	**176,654**	163,078	8	**176,654**	169,794	163,078	4	8

Ratios (%)	**Dec'18**	Dec'17	bps	**Dec'18**	Sep'18	Dec'17	bps	bps
Basel III Capital adequacy ratio (CAR)	**17.26**	19.09	(183)	**17.26**	16.90	19.09	36	(183)
Tier I ratio	**15.28**	15.92	(64)	**15.28**	14.87	15.92	41	(64)
Loan to deposit ratio (LTD)	**94.2**	100.1	(590)	**94.2**	97.3	100.1	(310)	(590)

Components may not sum exactly to totals because of rounding

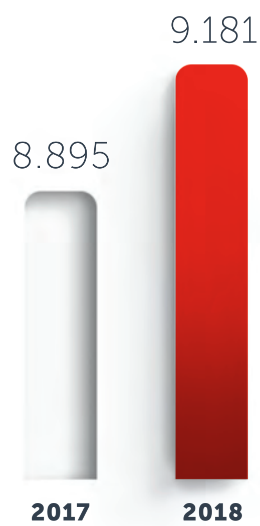
NET INTEREST INCOME
(AED Billion)

+8%



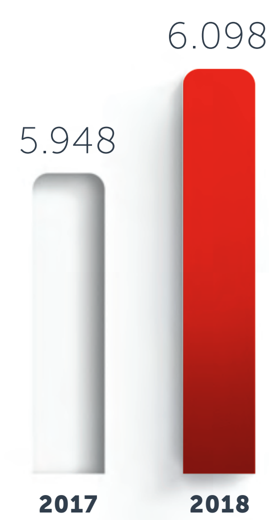
OPERATING INCOME
(AED Billion)

+3%



OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES
(AED Billion)

+3%



ROBUST PERFORMANCE, SUPPORTED BY RECORD OPERATING INCOME, OPTIMAL MANAGEMENT OF COST OF FUNDS AND LOWER IMPAIRMENT CHARGES

The Bank reported a net profit of AED 4.840 billion for the year, an increase of 13% year on year, supported by a healthy expansion in NIMs driven by optimal management of cost of funds, combined with lower impairment charges. On a quarterly basis, record net profit of AED 1.357 billion was up 18% over the previous quarter and 27% over the previous year. The Bank's key financial indicators remain strong with a return on average equity of 16.3% and a return on average assets of 1.71% in 2018 compared to 15.0% and 1.58%, respectively in 2017.

Total operating income was AED 9.181 billion, up 3% and operating profit before impairment allowances of AED 6.098 billion was up 3% over 2017, reflecting the Bank's strong fundamentals and resilient financial performance in 2018. Each business segment contributed to the strong underlying performance of the Bank. The Consumer and Wholesale Banking groups comprised 43% and 33% of total operating income respectively. Treasury and Property Management contributed 22% and 2% to total operating income respectively.

STRONG TOP LINE GROWTH

The Bank reported strong top line growth, with a net interest and Islamic financing income of AED 7.219 billion for 2018, an increase of 8% year on year, and net interest and Islamic financing income of AED 1.803 billion for Q4'18, an increase of 5% over Q4'17. Net interest margin for 2018 improved to 3.04% from 2.91% in 2017, an increase of 14 basis points, despite the increased cost of carrying high quality liquid assets (HQLA) to meet LCR and recently introduced NSFR regulations.

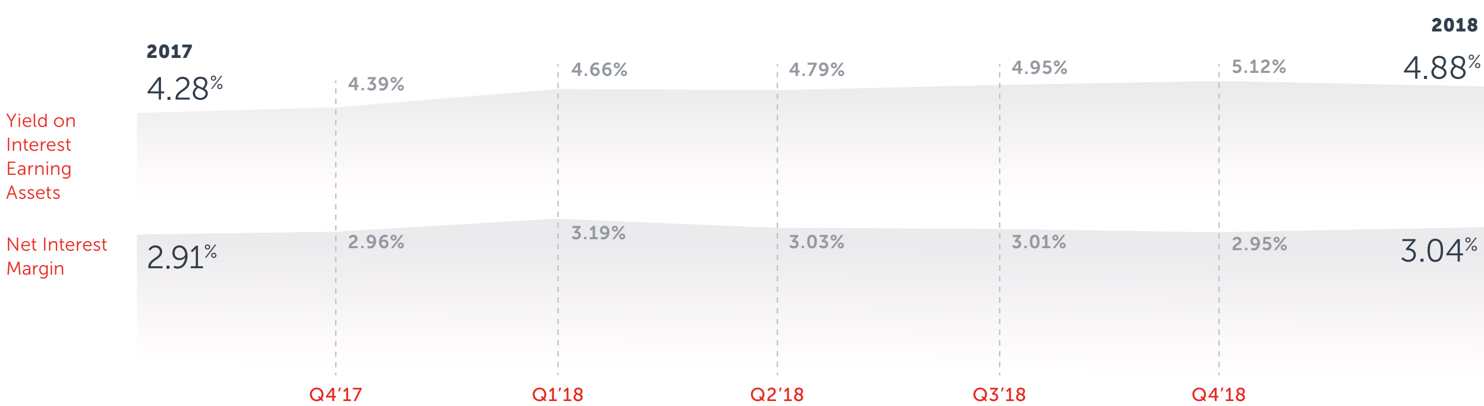
Gross interest and Islamic financing income of AED 11.592 billion was up 18% over 2017, driven by higher volumes and benchmark rates, coupled with a change in the composition of the asset book towards higher yielding assets. Yield on interest earning assets increased by 60 basis points to 4.88% in 2018, supported by the repricing of assets.

Cost of funds increased to 1.98% in 2018 from 1.48% in 2017, an increase of 50 basis points year on year, compared to an increase of 91 basis points in average 3M Eibor and a 104 basis points increase in 3M Libor over the same period. Increase in cost of funds (in line with rising benchmark rates) along with higher interest bearing liabilities of 3% resulted in an interest expense of AED 4.373 billion, up 39% year on year.

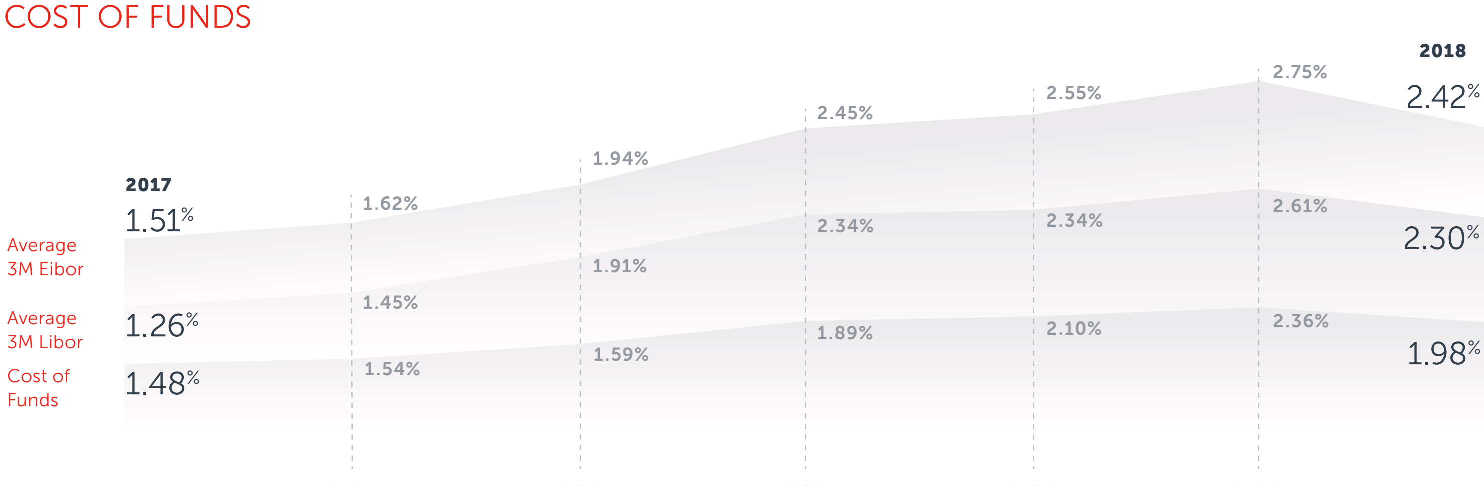
NON-INTEREST INCOME IMPACTED BY WEAKER FEES & COMMISSION INCOME PARTIALLY OFFSET BY HIGHER TRADING GAINS

Non-interest income of AED 1.962 billion was down 11% and accounted for 21% of operating income in 2018 compared to 25% in 2017. The reduction is mainly on account of higher fee and commission related expenses and lower volumes. This was partially offset by a healthy pick up in card related fees, income from the merchant acquiring business and income from trade finance commission. Gross fees and commission income of AED 2.090 billion was up 1%. Trading income of AED 432 million was up 22%, primarily due to higher net gains from dealing in foreign currencies and derivatives of AED 32 million and AED 27 million respectively. The decrease in other operating income was primarily due to one-off gains recorded in 2017 and lower income from the property management business in 2018. Net losses from revaluation of investment properties were AED 56 million compared to AED 34 million in 2017, due to decline in property and rental prices.

NET INTEREST MARGIN AND YIELD ON INTEREST EARNING ASSETS

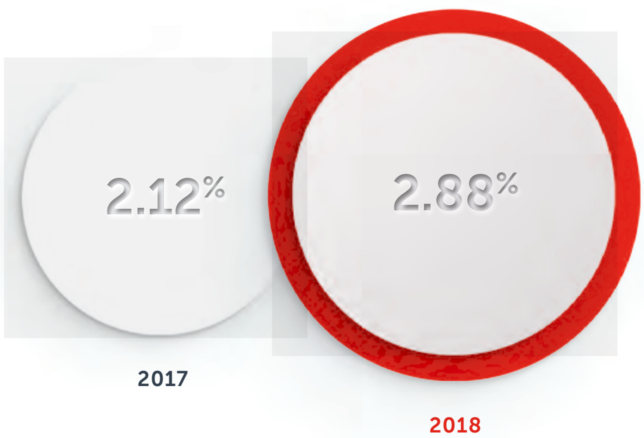


COST OF FUNDS

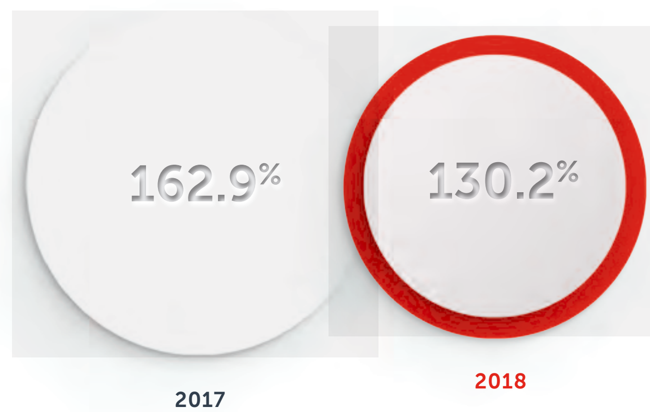



2017
33.1%
2018
33.6%
ADCB

NPL RATIO



PROVISION COVERAGE RATIO



COMMITTED TO IMPROVE EFFICIENCY, COST TO INCOME RATIO REMAINS COMFORTABLY WITHIN OUR TARGET RANGE

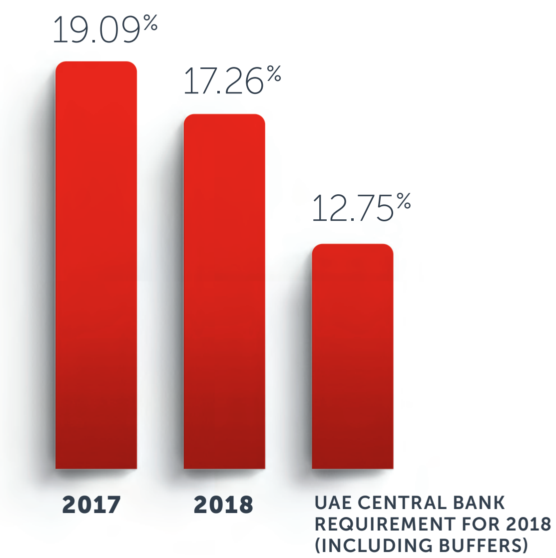
Operating expenses for 2018 were AED 3.084 billion, up 5% over the prior year. Staff expenses were up 8% at AED 1.838 billion, as the Bank continued to invest in recruiting and retaining top talent to further enhance business capabilities and support growth, as well as investing in significant resources to excel in customer service, operational excellence and digital transformation. General and administrative expenses were at par with prior year. Cost to income ratio of 33.6% remained within our target range.

IMPROVED COST OF RISK

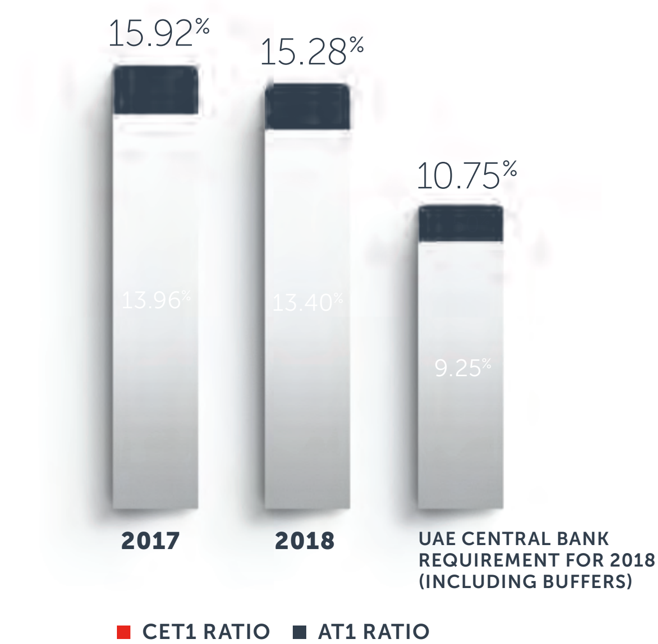
Net impairment charges were AED 1.266 billion, 24% lower than 2017, translating to an annualised cost of risk of 0.57% compared to 0.81% in 2017. The continued de-risking of the unsecured retail portfolio resulted in a much improved cost of risk for 2018.

As at 31 December 2018, stage 3/non-performing loan ratio (NPL) was 2.88% compared to 2.12% as at 31 December 2017. Non-performing loans increased to AED 5.191 billion from AED 3.692 billion as at 31 December 2017, led by a few corporate accounts. Effective 1 January 2018, the Bank successfully transitioned to the IFRS 9 accounting standard. Under IFRS 9, impairment allowances against loans and advances were AED 6.761 billion, with a provision coverage ratio of 130.2%. Stage 1 and 2 expected credit loss allowances were 2.32% of credit risk weighted assets, well above the minimum 1.5% stipulated by the UAE Central Bank.

CAPITAL ADEQUACY RATIO
(Basel III)



TIER 1 RATIO
(Basel III)



COMFORTABLE LIQUIDITY POSITION

Net loans and advances to customers increased to AED 166 billion, up 2% year on year. Total customer deposits increased to AED 177 billion, up 8% year on year, outpacing the system wide growth of 6%* driven by an increase in corporate time deposits. At a time of rising benchmark rates, the Bank did not see any significant adverse impact on CASA deposits, which contracted only marginally and time deposits further increased to meet the LCR and the NSFR regulations. As at 31 December 2018, CASA balances totaled AED 70 billion and comprised 39% of total customer deposits. Loan-to-deposit ratio significantly improved to 94.2% compared to 100.1% last year.

The Bank continues to maintain a comfortable liquidity position, with a liquidity coverage ratio of 186%, compared to a minimum ratio of 90% prescribed by the UAE Central Bank. Liquidity ratio was 28.3% compared to 24.5% as at 31 December 2017, led by an increase in deposits and balances due from banks and an increase in quoted investments.

STRONG CAPITAL POSITION AND COMFORTABLE LIQUIDITY LEVELS

The Bank remains well capitalised with a Basel III capital adequacy ratio (CAR) of 17.26% and a common equity tier 1 (CET1) ratio of 13.40%, well above the minimum capital requirements of 12.75% and 9.25% (including buffers) respectively, as prescribed by the UAE Central Bank. The reduction in CAR compared to December 2017 was primarily on account of the 2017 dividend payout, IFRS 9 adjustments, increase in credit risk weighted assets and part repayment of tier 2 capital.

* Based on Central Bank Monthly indicators as at 31 October 2018

BUSINESS REVIEW

Empowered by a strong set of values and an unrivalled commitment to customers, ADCB is creating more value for shareholders and a better banking experience for more than 886,000 customers.

CONSUMER BANKING GROUP (CBG)

WHAT WE DO

The Consumer Banking Group 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 49 branches across the UAE, two branches in India and one branch in Jersey. In addition, we have representative offices in London and Singapore, four digital banking centres, 376 ATMs, a 24/7 contact centre, leading online and mobile banking applications and a strong direct sales force.

As a retail banking business, our success is driven by our customer-centric approach, where we aim to provide the best customer experience at every interaction. Despite the sustained downturn, with uncertainty in the jobs market and a cautious consumer attitude to spending, ADCB remains the leading retail asset player in the market.

Consumer Banking Group reported a net profit of AED 1.198 billion, 12% higher than prior year. Operating income for the Group stood at AED 3.918 billion and accounted for 43% of total operating income in 2018. Deposits from customers increased by 2% over 2017 to AED 52 billion. Meanwhile, low-cost retail current and savings account (CASA) deposits constituted 71% of total Consumer Banking deposits as at 31 December 2018. Net loans to customers fell by 4% to AED 70 billion, primarily on account of the continued de-risking of the unsecured retail portfolio, while we maintained our focussed approach to growing the UAE National segment.

CHANNEL CONVENIENCE

Our investment in, and focus on, digital transformation is part of our strategic drive to simplify the client experience. It has given customers greater control over their money and made banking faster, easier and more secure. It also helps to secure our position as a leader in the digital banking space, creating a stronger, more agile business able to swiftly take advantage of opportunities in the UAE.

We are in pilot stage with ADCB Hayyak—a platform which significantly enhances the onboarding process for new customers, reducing the time to open an account from 3–4 days to about 10 minutes.

The launch of our MoneyBuddy app was another hit with customers. The personal finance management tool allows customers to analyse their spending, manage expenses, and set savings goals. Uptake for this application has already been strong.

We also created a bespoke banking platform called MyChoice. Customers can create tailored banking packages to best suit their needs. Each MyChoice package is built with unique preferential benefits and is already driving a strong revenue stream for the Bank.

Meanwhile, better use of data analytics across the Bank in our decision-making processes is helping to create and develop more refined products and services that fit perfectly with customer needs.

By digitising the entire banking process, we are driving greater efficiency and saving valuable time for customers. More than 95% of our retail financial transactions are electronic and the vast majority of our customers now use our mobile apps or online portals to cater for their everyday banking needs. More than 70% of our retail customers use our digital platforms, with mobile banking the strongest and continuing to grow ahead of those who opt for internet banking.

As a consequence, we are continuing to refocus the scope of our branches. Customers have heartily embraced our uBank proposition and this year. In 2018, we opened one more digital centre, taking the number to four across the UAE. In each digital service centre customers can instantly open an account, get a new credit card, replace a credit or debit card and print cheque leaves. The process is paperless and uses digital biometric authentication and digital signatures, with assistance from 'virtual' relationship officers by video-link.

We also launched Apple Pay for credit and debit cards and added debit cards to already launched Samsung Pay. 39% of ADCB's card transactions are now contactless as compared to a market average of 22%.* Similarly e-commerce spends on ADCB cards have grown 47%, which is ahead of the market by 10%.[1]

While these huge technological advances support greater efficiency and even better customer service, ADCB is a bank with a strong human touch. That is why those who prefer face-to-face transactions will always get a warm welcome in any of our 49 branches or will be able to talk to one of our experts at our contact centre.

UNIQUE UAE NATIONAL PRODUCTS

With the goal of supporting upcoming and current Emirati generations and to further contribute to the growth of the UAE, we launched two unique

ACTIVE USERS ADOPTING THE ADCB MOBILE APP INCREASED BY

22%

MORE THAN

95%

OF OUR RETAIL FINANCIAL TRANSACTIONS ARE ELECTRONIC

* Master and Visa Card Data (2018)

and bespoke banking segments exclusively for UAE Nationals, under the brand name Emirati and Emirati Excellency available in both conventional and Shari'ah-compliant solutions. These flagship segments of ADCB are carefully crafted to offer comprehensive banking and lifestyle experiences that range from exclusive products, including priority processing at various customer touch points, to discounted rates and fees, and handpicked partners to promote relevant offers.

The two new segments were supported with the launch of the Betaqti credit card, designed exclusively for UAE Nationals. A one-of-its-kind card product in the country, Betaqti card members can have their own name or favourite phrase laser etched on a metal card, thereby giving their card a touch of their own identity. The card also puts the customer in total control with seven key customisable card control features accessed through the new ADCB Mobile App, and comes with a range of benefits and rewards.

CUSTOMER REWARDS

Some 58% of our retail customers have been with us for more than four years, a strong reflection of the levels of service and trust we have built—especially given the proportion of the transient population in the region.

Creating lasting loyalty is a priority and our focus is on continually enhancing customer experience across every touchpoint of the Bank. We do this through outstanding customer service, great products, innovative technology and a comprehensive loyalty programme.

TouchPoints, our Bank-wide loyalty programme, rewards customers with points that can be redeemed with a growing number of suppliers across the region and beyond. More than 94% of our TouchPoints are redeemed digitally—either at point of sale or online. In 2018, we began a pilot programme to partner with a number of third-party providers to expand the programme.

Our highly-successful Traveller credit card, in collaboration with MasterCard, also rewards those who travel frequently, providing a range of discounts and rewards designed to enhance the travel experience. The Etihad Guest Above credit and debit cards also benefit customers with Etihad Airways' miles.

These partnerships, alongside the growth of our SimplyLife cards portfolio, have helped us to double the size of our credit card book in the past five years. SimplyLife, our mass-market banking operation contributed AED 3.2 billion to the retail asset book in 2018. Our alliances with Etihad and Lulu Hypermarkets have also helped deliver greater value to customers through a growing range of rewards.

MERCHANT SERVICES

When we launched a new merchant acquiring business last year, we quickly gained almost 450 new customers in its first few months. Since then, we have experienced rapid growth and now support almost 2,350 merchants, from SMEs to large-scale supermarkets, with nearly 7,600 terminals in almost 3,600 locations across the UAE.

We have continued to invest in the service that offers highly secure, end-to-end solutions for merchants of all sizes with a broad range of products and services across sectors, including education, transportation, government and retail.

This success has been driven by leveraging the breadth and depth of our banking offering and providing a one-stop solution for merchants in the areas of acquiring, cash management and financing.

ADCB PRIVATE BANKING

ADCB Private, our private banking business, has once again delivered a strong performance, exceeding AED 11 billion in total assets under management at the end of 2018, as a growing number of high-net-worth individuals and families continued to benefit from the expert knowledge and insight we provide.

Our specialist wealth management strategies are carefully developed by our highly-skilled management team with an unrivalled knowledge of both the local and international marketplaces. This significant advantage, combined with the exceptional personal support we give to every one of our customers through our concierge service, is one of the reasons we continue to stay ahead of the market and remain so resilient.

In 2018, ADCB was the first local bank to establish a presence in the Abu Dhabi Global Market (ADGM), Abu Dhabi's International Financial Centre, by opening our private banking centre and asset management subsidiary. As a leader in the banking industry, we join an increasing number of important global institutions that have already established a presence at the ADGM. This enables us to enhance our platform for high-net-worth clients with bespoke, complex and more sophisticated requirements.

ISLAMIC BANKING

Islamic banking remains a key driver of growth in the Bank as it continues to grow revenue and attract customers who want high-quality, Shari'ah-compliant, financial solutions that meet a range of banking needs, consistent with their values and traditions.

In 2018, total net Islamic financing income grew by 15% to AED 1.107 billion over the prior year. As at 31 December 2018, net financing assets were at AED 21 billion and deposits grew by 15% to AED 17 billion year-on-year. Our results illustrate the central role we play in the Bank and our contribution to driving sustainable growth.

As elsewhere in ADCB, we are investing in digital as we continue to transform the banking landscape, enhancing our Islamic products and services, ranging from bespoke Wholesale Banking solutions to pioneering retail financial products. This year the Bank was recognised by the Global Islamic Finance Awards, winning Best Islamic Wholesale Banking Solutions.

Our experienced Islamic banking team benefits from an extensive training and development programme. ADCB's Islamic Banking Academy enrolled more than 1,553 employees in classroom and online courses in 2018. This training helps staff to educate customers about Shari'ah-compliant structures and to promote the benefits of Islamic banking.

WHOLESALE BANKING GROUP (WBG)

WHAT WE DO

We provide a full portfolio of services, including world-class transaction banking and investment banking, to our client franchise as well as having a market-leading business across all segments in the market we serve. Our clients range from government-related entities (GREs) to financial institutions, large corporates, mid-sized corporates and small-to-medium-sized enterprises (SMEs). Wholesale Banking Group is responsible for our branches in India, as well as representative offices in London and Singapore. We continue to benefit from our strategic transaction banking relationships with Bank of America Merrill Lynch, Banco Santander and Korea's Kookmin Bank.

WHOLESALE BANKING DEPOSITS INCREASED OVER 2017

11%

The strength and quality of our relationships, particularly with large corporates, the government and GREs, has been the driving force behind our growth over the past year. Not only have we continued to support them with financing in a relatively muted economic environment, but we have also grown into new and profitable areas of business. Further, we remained very supportive to SMEs and mid-corporates as one of the largest providers of credit to these clients in the country.

In 2018, Wholesale Banking Group delivered a net profit of AED 1.707 billion and an operating income of AED 3.005 billion, an increase of 17% and 10% respectively over 2017. Customer deposits grew 11% to AED 76 billion, and net loans expanded by 6% over 2017 to AED 96 billion as at 31 December 2018.

While showing tentative signs of recovery in places, the economy remains difficult for many. The market for good quality credit has been increasingly competitive as more and more banks have followed ADCB's lead in de-risking their book across the wholesale segments.

As important building blocks for future prosperity and the diversification of the economy, the SME and mid-corporates markets remain an area of focus for us and where we have materially grown market share. The ongoing challenges in the economy and stricter credit criteria have made it a difficult year for many of these businesses but we are fully committed to continuing our strategic and financial support in these sectors.

We are proud of being one of the biggest SME lenders in the country and despite the economic slowdown, and unlike many lenders we held our loan book level in 2018, whilst cost of risk reduced materially. In the larger corporates and the government sector (GREs), we also grew the loan book and increased our market share, particularly in cash management, escrow and trade finance. We also have a healthy share of the market in mid-corporates, which we are actively supporting with financing, such as working capital or investment.

DIGITAL REVOLUTION

As we continue our digital revolution, we improved the mobile banking capability for our clients with a regular series of functional improvements successfully delivered. In doing so, we made the process of commercial financing and new account opening simpler and easier with better online functionality.

Wholesale Banking customers want complete control of their accounts and the ability to manage their finances anytime, anywhere. Enhancing customer experience across our digital banking channels

90%

OF ALL INTERACTIONS THAT OUR WHOLESALE CLIENTS HAVE WITH US ARE FULLY DIGITAL

is integral to our success, which is why each and every transformation we make starts with a focus on the customer.

This year, we launched digital account opening platforms for SMEs and mid-sized corporates, providing more simplicity and substantially reducing turnaround time. In trade finance, we also began automating workflow processing for all trade products with the launch of our Automated Trade Workflow. As a result, customers are now fully engaged in the process from start to finish. A unique reference number is generated for each transaction and an automated email sent to them at the start of the process. The reference number ensures we can track their requests and respond to any queries. The new automated process also sends emails alerting customers to changes in the status as the application moves towards fulfilment.

In addition, we made material improvements to our ProTrade platform and launched our Trade Booster portal.

This digital transformation is driving a fundamental change in the way we bank. By reducing account opening times, quickening lending decisions and enhancing functionality we are making banking easier and much more efficient. Not only have more of our existing customers switched to electronic banking, but we are also attracting greater numbers of new clients. Today, 90% of all interactions that our Wholesale clients have with us are fully digital.

Our award-winning Pro-Cash platform has helped to increase our foothold in transaction banking and this year we augmented it with our functionality rich Pro-Cash Mobile. The quality and consistency of our service proposition is highly-valued by our customers and has underscored significant growth in revenue in 2018. Our trade finance business also enjoyed an excellent year, growing materially ahead of the market. More and more customers have been attracted by our digital capabilities which enable them to transact with us much faster and more securely.

In 2019, we will continue to build on this digital success story.

Our cash management business delivered an outstanding performance in 2018, winning more mandates than ever before. We have strong and growing current and savings account (CASA) deposits, despite the challenge of rising interest rates. We manage these carefully and are confident that the CASA we have is granular and genuine operating money. We have successfully implemented a Virtual Accounts reconciliation capability for one of our leading clients based in Abu Dhabi and see major opportunity for this technology. In recognition of some of our achievements, this year we were awarded Best Domestic Trade Finance Bank of the Year, Best Cash Management Bank in the UAE and Middle East, Best Trade Finance Portal in the UAE and Middle East, and Best Islamic Wholesale Banking Solutions by Global Finance.

Meanwhile, despite the downward pressure on the real estate sector, our escrow business has been growing well and ADCB is a major force in the market. Our stability, strength and service in this area a ttracts clients and we have won a number of new projects from major developers across the UAE.

In our investment banking business, we had a record year in terms of financing volumes and fee generation delivered off a wider platform of services. Having broadened our capability, we were able to undertake bridge financing this year. We have a fully operational underwriting book and continue our advising, structure and warehousing business in our select capital markets.

PARTNERSHIPS

Our strategic banking partnerships with Bank of America, Santander and Kookmin banks have continued to be robust and positive, attracting greater revenue into the UAE.
Our multinational banking unit, which leverages our relationships with these significant banks, is growing revenues and we are rapidly gaining market share.

In 2018, we established a Korean Desk, under which two Korean staff from Kookmin joined ADCB. This has allowed us to better engage with a growing Korean corporate community. We look forward to building on these successes into 2019 as we continue to diversify our funding profile.

Wholesale Banking has a clear strategy for profitable growth, which we believe will continue to deliver value in the years ahead. We plan to maintain our strategy of growing market share, especially in lending to SMEs and mid-sized corporates, and to extend our leadership in transaction banking. Our increasing investment in digital technology will allow us to even further sharpen our advantage in customer service.

TREASURY AND INVESTMENTS GROUP

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.

We celebrated a strong year in Treasury with almost all our metrics on the rise in 2018, underpinned by a solid level of customer activity. Robust balance sheet management and a healthy investment book, coupled by FX trading opportunities and a growth in product sales yielded strong results across the year.

Net profit of AED 1.830 billion and operating income of AED 2.036 billion grew by 17% and 14% respectively over the previous year.

Over 2018, ADCB continued to be a leading UAE Bank with its liquidity management framework through the implementation of globally recognised practices. The liquidity framework aims to optimise the Bank's balance sheet whilst adhering to Basel III liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory measures.

In the capital markets, we delivered a number of landmark transactions that contributed to a very positive year. In the Swiss franc bond market, we completed two deals worth CHF 175 million and CHF 100 million and we returned to the US markets for a five-year USD 750 million 144A transaction.

Elsewhere we concluded a syndicated loan specifically for Asian banks that raised USD 590 million and we returned to the Taiwanese market for a USD 540 million Formosa bond issuance.

Our success in the global marketplace is a testament to the strength of our brand, as well as our growing international recognition and reputation. We remain active in the international bond and equity investor space where we typically hold more than 100 sessions and events to highlight the opportunities we can deliver.

The digital development we have seen across the Bank has been a growing benefit for us internally. Speed, accuracy and efficiency are crucial and following last year's core banking system upgrade, we now have even better access to real-time information on financial markets, customer transactions and visibility on our risk profiles; all of which drive higher quality risk management outcomes and allow us to stay ahead of the regulatory curve. This year, we reviewed all our reporting processes and the metrics around them, as well as revalidating our risk appetite with the Board.

This transformation also helps us significantly in the marketplace. We have, for example, been able to better support the SME sector with FX accounts with our state-of-the-art FX platform, 'Go Trade'. Users increased by 75% in 2018.

PROPERTY MANAGEMENT

WHAT WE DO

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

Our property management business is a vital part of the UAE's real estate sector, providing ADCB's characteristic customer service excellence at every turn.

ADCE is one of the leading service providers for the real estate and property development industry in the Gulf Cooperation Council (GCC).

As such, it is the partner of choice for complex medium- and large-size regional development projects. It delivers a full range of building design and construction property development services, with a sharp focus on efficiency.

By capitalising on the diverse fields of expertise of a skilled team of evaluators, engineers and architects, the business is noted for delivering added value and going above and beyond when it comes to meeting customers' requirements.

ADCP is a major participant in the UAE real estate sector. On behalf of the Department of Finance of the Government of Abu Dhabi, and others, it manages more than 2,100 buildings, comprising of more than 52,000 residential and commercial units throughout the UAE. A team of more than 250 experienced real estate professionals, delivers tenant management, leasing, facilities management and construction & project management services.

ADCP also manages a rapidly growing private portfolio. The units managed on behalf of the Department of Finance are part of a government initiative, which grants land for commercial or residential development to Abu Dhabi Nationals.

ADCE oversees the construction of those buildings. Once complete, ADCP provides ongoing facilities-management services.

In 2018, our property management business had an operating income of AED 222 million and collected more than AED 2.5 billion in rent on behalf of its clients. The business also addressed more than 197,000 service requests and resolved over 51,000 landlord-tenant queries.

BUSINESS SUPPORT

WHAT WE DO

Our support and enablement service teams are the engine room of the Bank, powering the technology and operational processes, infrastructure and expertise that provides the secure and efficient environment on which our businesses depend. In addition, Group Business Services (GBS) is responsible for preparing the Bank for the future by creating operational and technological efficiencies and driving our digital transformation. By facilitating greater efficiencies through better processes and systems, we help to ensure the Bank and its customers remain safe and secure.

GROUP BUSINESS SERVICES (GBS)

The past year has been particularly active for GBS. We continued our mission to ensure that the Bank's technological and operational infrastructure remains robust, efficient and adaptive and that our digital transformation continues at pace.

We worked with teams across the Bank to improve mobility, delivery, efficiency, and transparency in a drive to continuously offer our customers an outstanding level of service. At the same time, we strengthened our culture of agile working, collaboration and accountability to support a rapid pace of change across the organisation and to ensure projects were delivered smoothly and as planned.

In partnership with the Wholesale and Consumer Banking teams, we implemented a number of online services and tools to provide innovative solutions to our customers, including those in the SME and mid-corporate sectors, improving customer onboarding, financing and trade workflows.

Working with other functions within the Bank, we were instrumental in delivering a large number of critical projects, including projects to support the introduction of VAT and IFRS 9 as well as a number of regulatory and compliance solutions. We also enhanced our customer feedback and liaison programs to ensure even greater transparency, fairness and accessibility.

In 2018, we further strengthened our processes around operational efficiency and risk, by enhancing controls and security. These improvements helped us to drive greater efficiencies by increasing productivity and enhancing the customer journey at every touchpoint, as we seek to provide a world-class banking experience for our customers.

From customer onboarding and servicing, to the voice of the customer, transparency and accountability, we are committed to responding to customer feedback and providing exceptional service at every opportunity. Regardless of the channel through which our customers choose to connect with us, we work to ensure a seamless experience with a consistent and timely service.

The replacement of our core banking system in 2017 provided the robust platform required for the volume of change and transformation undertaken this year. In 2018 we utilised the enhanced system's resilience, agility and scale as the foundation for the digitisation program across ADCB.

This year, we enhanced our range of apps and revamped our internet and mobile banking platforms. Customers benefit from these enhanced digital capabilities, allowing them to do everything from opening an account and paying bills, to transferring money and getting approval for a loan faster and with greater ease and security.

While working on many new initiatives, this year we delivered several significant new releases, while creating a digital style guide to bring a consistent look and feel across all our platforms. Teams from across the Bank have been mobilised to work on delivering these projects, such as Hayyak. Hayyak, currently in pilot stage, significantly enhances the onboarding process for new customers, reducing the time to open an account from 3–4 days to about 10 minutes.

The dedicated digital studio in the ADCB head office augments our agile culture and helps us to deliver new products and services faster and more efficiently. The studio is home to our agile working teams—or squads—and features four specialist rooms including a hi-tech customer lounge. Our studio teams, comprised of staff from every area of the business, work in collaboration with consumers—both customers and non-customers—to develop and test all our digital platforms at every stage of development, including proposed new releases.

By adopting this agile digital culture and harnessing our unique consumer insight, we are differentiating ADCB and bringing innovative and new services to the market. We are also raising our brand recognition and building greater trust with all our stakeholders—promoting deeper engagement with customers and our staff and creating greater value for investors.

We are also making greater use of data and analytics to develop more intuitive and personalised user experiences as well as to create new and different products and services that match the ambitions of our customers. Embedding analytics in our decision flows will also significantly improve operational efficiency and customer experience.

In addition to taking feedback, suggestions and insights from our customers, we look to our staff for new and innovative ideas and have piloted a programme to encourage intrepreneurs, or internal entrepreneurs, to come up with a range of digital designs for new ways of working, new products, AI and businesses.

We have also played a pivotal role in improving the Bank's operational processes, increasing efficiency and reducing costs through ITMAM, our captive shared services centre through both on-shore and off-shore capabilities. In 2018, ITMAM delivered another solid performance with 98.2% of service level agreements met across Consumer and Wholesale Banking Groups. The number of transactions processed per employee was up 1.3% compared to last year.

We are continuing to save time and deliver efficiencies for customers through new and improved channels. In 2018, GBS processed an 11% increase in transaction volumes in businesses such as payments, trade and treasury products. Meanwhile, we continue to use the Lean Six Sigma approach across our teams to create greater value for our customers and the business by minimising waste, reducing defects and improving processes.

We successfully increased the capabilities of our network of Cheque Deposit Machines (CDMs), which significantly improved the cheque clearing experience for our customers. More than 1.8 million transactions went through our CDMs in 2018, which process and clear cheques almost immediately. We continue to grow and develop 'Tamooha'—our award winning all-female UAE National operations centre in Al Ain, and we continue to bring further operational processes from across the Bank into the ITMAM way of working.

GBS continues to do more, with less, and without any compromise on quality. We will continue our investment in digital, capitalising on our new system to scale for growth.

In addition to our heavy day-to-day operational responsibilities, we have a pipeline of innovative and exciting initiatives for 2019 and beyond, driven by our commitment to our customers, to agility and to the future of our Bank.

BUSINESS SUPPORT
(CONTINUED)

WHAT WE DO

Human Resources (HR) is responsible for engaging our workforce, delivering a range of training opportunities and developing the skills to support our growing business. HR is also at the forefront of promoting our values and fostering the passion for customer service excellence, that is the hallmark of ADCB.

HUMAN RESOURCES (HR)

Our success is driven by the quality of our people, the strength of our leadership, and the clarity of our vision. The knowledge, skills and experience of our staff in every area of the business enable ADCB to deliver its strategic goals and objectives through exceptional customer service.

Maintaining an engaged and motivated workforce is key to fostering a high-performance culture. Our values—Integrity, Care, Ambition, Respect and Discipline—play a large part in this and help us to achieve higher levels of service, boost our reputation as a brand, and build on the trust and confidence of our shareholders.

There is a strong sense of pride amongst those who work at the Bank. This year's annual employee engagement survey once again revealed rising levels of employee engagement, which placed ADCB ahead of other local banks as well as those in the region. According to the leading global consultant's benchmarks, ADCB's results also compare favourably to the top performing companies in the Fortune 500 with engagement levels.

More than 86% of staff took part in the survey which showed a continued improvement in scores across the majority of topics. The results revealed:

- 90% of staff believe the Bank provides clear and promising direction;
- 90% consider we provide high-quality products and services and are entirely focussed on our customers;
- 85% are confident in the quality of leadership at ADCB; and
- 83% regard our performance management as robust.

THERE ARE NOW MORE THAN

200

TAKING PART IN OUR TAMOOHA INITIATIVE

The strength of our employee engagement and their commitment to the Bank has meant that more than a third of our staff now have an average length of service of six years at ADCB.

The importance of placing the customer at the centre of everything we do is a key strategic pillar and helps to drive our success in HR. Customer-centricity helps us to build meaningful and long-term relationships with our customers and to better understand their evolving needs. We listen closely to what our customers are saying and quickly design solutions that are appropriate for them. Our goal is to ensure that this relentless focus on the customer becomes embedded in our decision-making process and part of the Bank's DNA. To further support this, we strive to attract the best talent possible and to sharpen their skills through robust learning programmes.

Supporting the digital transformation is another of our core pillars. To build better in-house digital capabilities, we have recruited talent from the local, regional and global markets as well as augmenting skills internally through our Digital Academy. We also piloted a programme to assess digital behavioral competencies throughout the business.

Investing in the development of our people remains at the heart of our HR activities. Through our range of specialised academies, we delivered more than 163 unique classroom training courses and 450 technical and functional e-learning modules. In addition to the academies, we placed great focus on mandatory learning where we have seven different modules on topics such as compliance, risk, anti-money laundering, information security and our code of conduct. These mandatory courses form an integral part of the comprehensive three-month induction programme designed to integrate new staff into the Bank's culture.

Employees received an average of 38 hours of training in 2018, helping to further develop their skills and abilities. Our training is measured through learning tracker tools that ensure we deliver a robust return on investment.

Our performance management process is thorough and comprehensive. It is mandatory for all employees to have set objectives and KPIs mapped to their role. 30% of our performance objectives are service related. To reinforce and promote good performance, the process is linked to reward and recognition and to the career growth opportunities within the Bank. Performance forms part of the eligibility criteria for the range of vertical and horizontal career moves we offer.

Career paths and requirements for career progression are clearly defined and communicated to all employees and supported by learning and development programmes open to all staff.

In 2018, in line with our values of Care and Respect and to foster a better work/life balance, we reviewed our benefits scheme and introduced a half-day leave category to help provide flexibility for staff.

We recognise the value of diversity and we are proud to have people from 84 different nationalities working in the Bank, which helps to enrich our culture.

We place a special focus on gender diversity across all levels of the organisation and have seen a significant increase in the number of women joining the Bank and moving into senior leadership positions. 39% of our workforce is female with 29% of middle and senior management roles held by women. To support working mothers, we have doubled our maternity leave.

In 2018 we increased the number of UAE Nationals working for the Bank. We consistently surpass the Emiratisation targets set by the regulators every year.

Helping drive this success is our Emirati Academy, which aims to ensure that high school and university graduates are fully prepared for branch or departmental roles, with the necessary knowledge and training to equip them for success.

TAMOOHA

Ambition is one of our core values and we believe in nurturing those with a strong desire to achieve more. That is why five years ago we created our award-winning Tamooha initiative which helps Emirati women pursue a career and contribute to the nation's progress, while ensuring their family priorities are taken care of.

The programme, which has grown every year, provides a women-only workspace, telecommuting and part-time options for skilled Emirati women who want a work environment suited to their traditional values. We provide training and support at our dedicated centre in Al Ain, where women are able to gain experience and skills.

Those who successfully complete the course receive a certificate and the chance to work from home or at the centre. This year, more than 10 women chose to move from Tamooha into full-time employment with the Bank.

In 2018, we also saw an increase in the number of those applying to the programme. As a result, there are now more than 200 taking part in our Tamooha initiative.

SUSTAINABILITY

As a major financial institution in the UAE, we are committed to sustainability, both within our own organisation and in the wider community.

We see our purpose in the UAE community as broader than simply providing services to individuals, businesses and government-related entities (GREs) to generate profit. We also aim to build maximum long-term value for all of our stakeholders, as well as to earn their trust in everything we do. One of the ways we achieve this is our commitment to sustainability. We focus on those sustainability issues that matter most and manage those issues in an integrated manner in the way we do business.

Our approach is guided by three principal pillars:

1. Contributing to sustainable economic growth;
2. Conducting business responsibly; and
3. Investing in our communities.

These pillars enable ADCB to contribute to advancing the UAE's Visions and the United Nations Sustainable Development Goals (UN SDGs), as well as ensuring that our success creates shared value with our stakeholders and helps our community and the people we serve to thrive too.

Sustainability remains an important issue for us, our customers and investors, and we strive to build long-term value and trust with our stakeholders by:

- establishing partnerships with customers that last a lifetime;
- managing our environmental, social and governance (ESG) impacts;
- addressing the key sustainability issues that matter most to our investors;
- contributing to projects and programmes that support the UAE Visions for sustainable development;
- creating shared value for the communities we serve; and
- managing and developing our people—our most valuable asset.

CONTRIBUTING TO SUSTAINABLE GROWTH

Our ambition to create the most valuable and resilient bank in the UAE is supported, in part, by our commitment to sustainability. At ADCB contributing to sustainable growth entails a multi-faceted approach to managing both financial and non-financial performance metrics.

We have pledged to generate sustainable profit growth based on our strategy and service excellence approach which includes focusing on a UAE-centric approach, liability growth and funding diversification, building long-term relationships based on trust, effective risk management, and generating long-term sustainable returns bolstered by cost-savings and efficiencies born out of our digital transformation programme.

We deliver an unrivalled customer experience across every touchpoint of the Bank. We develop products and services that help our community (individuals, corporates and GREs) to thrive and grow with wealth, safety and protection in mind. We fuel employment and growth through the projects and communities we support. And we support the government and society as a whole in creating a vibrant economy and a stable, long-term future for all.

In addition, we evaluate our progress on this ambitious journey based on non-financial performance measures.

Our business practices are managed responsibly to contribute to sustainable development by incorporating ESG into our financial decision processes (see Conducting Business Responsibly, below) such as credit decisions, projects financed, and procurement screening, as well as in sponsorship and partnership decisions (see Investing in our Communities, below).

Our approach enables us to contribute to sustainable growth in the UAE and deliver long-term sustainable value for our stakeholders, with long-term sustainable returns for our investors.

ESG RATINGS AND BENCHMARKS

A

MSCI

2nd

S&P/HAWKAMAH PAN-ARAB ESG INDEX RANKING

CONDUCTING BUSINESS RESPONSIBLY

Managing our business responsibly is vital for our success, the prosperity of our stakeholders, and the reputation of the Bank. We do this by focusing on seven key areas:

1. PRIVACY AND DATA SECURITY

The security of our customers' personal details is paramount, and we have developed a robust framework supported by policies and procedures, management and board risk governance, integrated staff training and communications, for the collection and safekeeping of all the data we store. We regularly review our safeguards and monitor cyber threats to ensure we maintain our world-class protection, with regular internal and external audits that evaluate the adequacy of our security controls, and independent third-party testing to identify any security gaps and areas that can be further enhanced.

Our significant investment has enabled us to mitigate risk exposure in this area, as demonstrated by our strong performance in customer privacy issues.

100%

INCIDENTS OF BREACH OF CUSTOMER PRIVACY DETECTED (AND PREVENTED) IN 2018

Zero

INCIDENTS OF BREACH OF CUSTOMER PRIVACY IN 2018

ISO/ICE 27001 AND PCI DSS (PAYMENT CARD INDUSTRY DATA SECURITY STANDARD v.3.2) ACCREDITATION IN 2018

2. FINANCIAL INCLUSION

Building on our responsible lending practices, we endeavour to provide financial education, guidance, and affordable products and services to all individuals and businesses (for more information, please see MoneySense on page 82). We strive to offer solutions to the constraints that may sometimes serve to exclude people from participating in the financial sector.

3. INCORPORATING ESG INTO CREDIT ANALYSIS AND DECISION-MAKING

By investing in large infrastructure and industrial projects as well as other economic sectors, we support economic growth and community prosperity. To ensure that this supports sustainable development objectives, we aim to minimise adverse impacts on people and on the environment by assessing environmental and social risks and impacts in a structured way and on an ongoing basis.

As part of this strategic commitment to sustainable financing, ADCB has decided to adopt the Equator Principles to ensure that the projects we finance and advise on are developed in a manner that is socially responsible and reflect sound environmental management practices. We believe that the adoption of the Equator Principles will bring significant benefits to us, our clients, and local stakeholders, and will further reduce our exposure to borrowers' environmental and social risks through enhancements to our due diligence process.

We also support sustainable finance through our investment decisions.

In 2018, the Bank promoted several environmental and social improvements through our financing activities. For example, we provided guarantee and letter of credit facilities in excess of AED 734.6 million (USD 200 million) to support the construction of a 200mw solar energy plant; approved financing for a government-led project to centralise patient medical records to improve the quality of treatment for UAE residents; and financed transportation for a local rehabilitation centre serving children with special needs.

ADCB also continues to make financing commitments to companies working towards developing sustainable infrastructure including Bee'ah, the UAE's leading integrated environmental, recycling & waste management company; Abu Dhabi's Future Energy Company (Masdar); the Tabreed district cooling utility company; and the first community bikeshare scheme in Abu Dhabi (for more information, please see ADCB Bikeshare on page 82).

100%

OF OPERATIONS ASSESSED FOR CORRUPTION RISK IN 2018

Zero

INCIDENTS OF WHISTLE-BLOWING DEEMED SUBSTANTIAL IN 2018

5,980

TOTAL TRAINING (HOURS) ON ANTI-CORRUPTION IN 2018

4. BUSINESS ETHICS

We have embedded a strong set of principles that guide our conduct and govern our stakeholder relationships. Our mission, core values and service commitments are deeply embedded across our organisation and business practices, and all employees must read and acknowledge our comprehensive Code of Conduct, which is regularly updated. The Code of Conduct also forms part of the mandatory training that all staff are required to complete annually.

In addition to a robust risk management framework, the Bank has a clear whistleblowing procedure and operates anti-money laundering and anti-bribery and corruption policies and training. Our independent internal audit team ensures we are compliant with all required regulations and that we follow best-practice guidelines.

5. CORPORATE GOVERNANCE

We have a strong, diverse and experienced Board, with 10 independent Directors, who monitor the implementation of our strategy with clarity and precision to create and sustain shareholder value. Our sound governance practices support our Board to make the right decisions, which minimise risks and maximise business value for the Bank (for more information, please see the Corporate Governance section on page 102).

6. SUPPLY CHAIN MANAGEMENT

Our responsible procurement practices support sustainable development by creating business opportunities for local suppliers and vendors who share our commitment to sustainability.

By integrating ESG criteria into our vendor screening process and partnering with local suppliers, we are helping to promote sustainable practices throughout our supply chain.

96.7%

OF SPENDING ON LOCAL SUPPLIERS IN 2018

90.7%

OF SUPPLIERS SCREENED FOR ENVIRONMENTAL CRITERIA IN 2018

7. HUMAN RESOURCES

We adopt progressive employment practices which enable us to attract, retain and develop highly-skilled and productive workers, foster a healthy business environment and contribute direct value towards economic growth.

In 2018, ADCB directly employed more than 5,000 staff from 84 nationalities, of which 39% were female employees, of whom 29% held senior and middle management positions.*

9.5%

ADCB STAFF TURNOVER RATIO IN 2018

78%

OF ADCB STAFF ARE SATISFIED AND WILLING TO GO BEYOND IN 2018

Across the Bank, we empower and nurture our people by investing in employee training and development, fostering employee diversity, creating a safe, fair and engaging work environment and by investing in programmes that promote health and well-being. Our employees are engaged in our commitment to sustainability from the start of their career with ADCB as part of our on-boarding programme.

* As defined by UAE Central Bank guidelines

Our practices help to minimise the risk of turnover and associated costs of rehiring, loss of intellectual and human capital through attrition, and reduced ability to attract talent. Our 2018 employee engagement survey results reached the highest level, demonstrating that our employees are satisfied, engaged and willing to go beyond the expected.

Our high-performance culture continues to contribute to the success and growth of our business.

INVESTING IN OUR COMMUNITIES

We pride ourselves in our continuous commitment to investing in our communities and creating positive social and economic outcomes for all. We do this through our strategic partnerships, programmes and philanthropy that contribute to advance the goals of the UAE's Visions and the UN SDGs.

OUR ACHIEVEMENTS IN 2018

SDG GOAL: QUALITY EDUCATION—MONEYSENSE

We continued to raise levels of financial awareness in our community through our MoneySense programme, which encourages the adoption of sound financial management practices. The programme was delivered to our stakeholders through multiple channels: to our customers as part of the Health & Wealth Roadshow held monthly at different branches across the UAE and to ADCB staff and to staff of corporate clients through workshops. In 2018 our outreach to UAE residents and Nationals exceeded 975. Our programme also reaches the broader community through an enhanced digital platform.

SDG GOAL: HEALTH AND WELL-BEING—ADCB BIKESHARE

ADCB continues to support the first public bikeshare system in Abu Dhabi, ADCB Bikeshare, in partnership with Cyacle. ADCB Bikeshare is a sustainability initiative which provides a cost-effective and energy-saving alternative method of transport across several Abu Dhabi communities. Overall, ADCB Bikeshare users travelled 274,319 kms, which equates to over 6.86 million calories burnt and approximately 41.70 kg carbon emissions offset, and promoted a positive impact to the environment, health and the community.

SDG GOAL: HEALTH AND WELL-BEING—ADCB PINK MONTH

ADCB has supported breast cancer awareness since 2009, helping to reduce incidences of breast cancer. We have spearheaded various initiatives that help raise awareness for this significant health issue as well as providing funding. In 2018, we once again backed the ADCB Pink Run, an annual run that forms part of the ADCB Zayed Sports City 5&10K runs. Organised by ADCB and Abu Dhabi Striders, it has become one of our most popular community events to mark Pink Month in October. This year, over 1,360 people participated. All proceeds from the Pink Run go towards Breast Cancer Research.

ADCB also facilitates donations through our ATM and internet channels and raised over AED 160,000 in 2018 towards Breast Cancer Research.

ADCB also provides insurance solutions such as Critical Guard Plus, that protect against many critical illnesses including cancer.

SDG GOAL: PARTNERSHIPS FOR THE GOALS

ADCB partners with other organisations to pursue our sustainability strategy. In addition to those already mentioned in this report, ADCB has nurtured a long-term partnership with Emirates Nature in association with WWF (Emirates Nature), a nonprofit organisation driving positive change to conserve the natural heritage of the UAE. In 2018, we contributed more than AED 345,000 for Emirates Nature through ATM and internet banking donations raised through our partnership.

STAKEHOLDER ENGAGEMENT

We recognise the importance of working in partnership with all our stakeholder groups. By collaborating with each of the groups that play a part in our daily business activities, we help to ensure that ADCB is more effective, efficient and resilient.

The Board has outlined its intention in 2019, to create deeper and more meaningful engagement with our diverse stakeholder groups. We want more regular, two-way communication between the Bank and our stakeholders to bring even greater clarity to our purpose and so that we can better benefit from the experience and advice of all those we work with.

WHO ARE OUR STAKEHOLDERS?

We regard those who influence or are influenced by our daily business activities as our key stakeholders. To that end, they are our customers, employees, community groups, suppliers, investors and regulators.

WHAT ARE THE TOPICS?

As you might expect, the subjects that are most important to each group are many and varied. These are some of the key issues that are of most interest to our stakeholders:

CUSTOMERS—customer satisfaction, products and services, digital access, security;

EMPLOYEES—culture, values, training, career opportunities;

COMMUNITY GROUPS—financial education and inclusion, local support;

SUPPLIERS—pricing, services, efficiency, fairness;

INVESTORS—financial performance, strategy, governance, risk management, sustainability; and

REGULATORS—compliance, banking trends, legislation.

HOW DO WE ENGAGE?

Our methods of engagement vary depending on the stakeholder group and include a wide range of communication, from face to face meetings to written, verbal and broadcast communication, town hall sessions, presentations, reports, roadshows, forums, and more.

LOOKING AHEAD

In 2019, we will provide a more detailed report on our engagement with these groups. We will identify the ways in which we engaged with each of them, how frequently we did so, the key topics raised, and the feedback received, as well as how we responded to them.

2018 AWARDS

"Most popular Credit Card of the Year 2018"

SOUQALMAL.COM

"Credit Card product of the Year in Middle East"

THE ASIAN BANKER

"Best affinity Credit Card in Middle East & Asia/Oceania"

FREDDIE AWARDS 2018

"Best online Portal Services in the UAE"

GLOBAL FINANCE

"Best Service Cash Management in the UAE—Non-FI"

2018 EUROMONEY CASH MANAGEMENT SURVEY

"Best Islamic Wholesale Banking Solutions"

GLOBAL ISLAMIC FINANCE AWARDS

"Best Cash Management Bank in the UAE and Middle East"

GLOBAL FINANCE

"Best affinity Card in Middle East & North Africa"

MASTERCARD LEADERSHIP FORUM

Ranked 2nd in S&P/Hawkamah ESG Pan Arab Index for leadership in corporate sustainability

HAWKAMAH

"Best Domestic Trade Finance Bank Of The Year"

GLOBAL FINANCE

"Best Trade Finance Portal Services in the UAE and Middle East"

GLOBAL FINANCE

"Best Integrated Corporate Banking Site in the UAE and Middle East"

GLOBAL FINANCE

"Investors in People Award 2018"

ISLAMIC RETAIL BANKING AWARDS

"Best Trade Finance Bank in UAE"

THE ASIAN BANKER

"Best Trade Finance Provider in UAE"

GLOBAL FINANCE AWARD


Governance

CHAIRMAN'S LETTER

The rapid pace of change in the world of banking and beyond provides our industry with challenges and opportunities. It also highlights the importance of our strong and experienced Board.

Good governance is the foundation of our success, underpinning our strategy and guiding our steps to becoming the number one bank of choice in the UAE.

As we build on our strategy and continue to transform our business, particularly in the digital space, the Board is responsible for navigating issues today that will help define and direct our ambitions tomorrow. That is why a rich range of experiences and skills, a disciplined approach to governance and a deep understanding of banking are vital components for a successful Board.

Over the next few pages you will be able to see how we have continued to strengthen our corporate governance through the activities of our Board and Board Committees. The implementation and transition to IFRS 9, new regulatory liquidity requirements, better communication and transparency are among the many topics we addressed during 2018.

CULTURE AND GOVERNANCE

I am proud of how the Bank's governance has been developed, particularly over the past decade. By voluntarily adopting practices that go above and beyond those mandated by law or regulation, we have been pioneers of best practice in the region.

For example, our Code of Corporate Governance has created a structure and framework that complies very closely with the Basel Committee's corporate governance principles for banks. These principles form the basis of new governance regulations expected from the UAE Central Bank in 2019.

As a Board, we have a responsibility to foster a healthy culture, where innovation and success can thrive. Our values set the tone of the Bank and help drive that success. Integrity, Care, Ambition, Respect and Discipline are embedded in our culture. They guide every action we take and every decision we make. They also form a key part of the management's KPIs and influence their remuneration and incentives.

BOARD EFFECTIVENESS

We have a strong and experienced Board, with several independent Directors. The Board monitors the implementation of our strategy. Selection, appointment, regular performance reviews and ongoing training of Directors ensures a high level of corporate governance in the Bank.

Transparency is an important factor in our approach; information is shared and communication channels between Board and management are clear. Both sides are engaged and collaborative. We hold regular Board and Committee meetings, and have appointed an experienced external adviser to assist the Board. We all share one priority: the interests of the Bank and its stakeholders.

The Nomination, Compensation and HR Committee and the Board are satisfied that the external commitments of our Non-Executive Directors do not conflict with their duties and commitments to the Board in any material respect. For the past 10 years we have required that, every quarter, each Board Member must confirm, in writing, his or her understanding of his or her duties to the Bank. We also have strong related party and conflicts policies in place.

As part of our ongoing commitment to monitor and improve performance, as well as to embed international best practice, we conduct regular Board evaluations. These assess the Board's effectiveness at various levels. This includes our oversight of the management's performance and the Bank's transparency and accountability to shareholders, depositors, other relevant stakeholders and market participants.

Your Board is committed to using the results of these evaluations to drive improvements in our performance.

DIVERSITY

One of the ways to create a more effective Board—and business—is through greater diversity. For us, this is about genuinely reflecting the views of all stakeholders, celebrating diversity of thoughts and views, championing the positive challenges we bring to each meeting, and nurturing a wide mix of commercial skills and varied backgrounds.

ENGAGEMENT WITH STAKEHOLDERS

Understanding the subjects and issues that concern our stakeholders is vital for the Board when it comes to making informed decisions. 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.

To see some of the other ways in which the Bank engages with our stakeholders, turn to page 83.

THANK YOU

I am pleased to present the ADCB Corporate Governance Report for 2018 and to take this opportunity to thank all my colleagues on the Board for their support. I have no doubt that we have the right mix of skills, knowledge and experience to ensure we continue to be effective.

Eissa Mohamed Al Suwaidi
Chairman

BOARD OF DIRECTORS

Eissa Mohamed Al Suwaidi

Chairman
Independent, Non-Executive Director*

Eissa Mohamed Al Suwaidi has more than 20 years of experience in asset management and banking. He was appointed by the Abu Dhabi Investment Council to join the ADCB Board of Directors in 2008, when he was also elected Chairman.

Bachelor of Economics (Northeastern University, USA)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Risk & Credit Committee

Member—Nomination, Compensation & HR Committee

EXTERNAL APPOINTMENTS:

Chairman—Emirates Telecommunications Group Company

Vice Chairman—Maroc Telecom

Chief Executive Officer—Abu Dhabi Investment Council

Board Member—Emirates Investment Authority

Mohamed Sultan Ghannoum Al Hameli

Vice Chairman
Independent, Non-Executive Director*

Mohamed Sultan Ghannoum Al Hameli brings substantial financial experience to the Board having served in the Department of Finance—Emirate of Abu Dhabi and as Assistant Director of the European Equities Department of the Abu Dhabi Investment Authority. He was appointed by ADIA to join the ADCB Board of Directors in October 2004.

Bachelor of Finance (Boston University, USA)

General Manager Program, Strategic IQ: Creating Smarter Corporations (Harvard Business School)

Chartered Financial Analyst (CFA Institute)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Nomination, Compensation & HR Committee

Member—Risk & Credit Committee

EXTERNAL APPOINTMENTS:

Director General—Abu Dhabi Finance Department

Board Member—Social Welfare & Minor Affairs Foundation, Emirates Telecommunications Group Company, Abu Dhabi Retirement Pension and Benefit Fund, UAE Federal Tax Authority, Abu Dhabi Development Holding Company

* Independent (assessed as per Bank policies and by reference to local regulations)

Mohamed Darwish Al Khoori

Independent, Non-Executive Director*

Mohamed Darwish Al Khoori has 30 years of experience in asset management and its related disciplines. Mr. Al Khoori has been Executive Director of the Operations Department of the Abu Dhabi Investment Authority (ADIA) since 31 May 2015. From 2008–2015, he was the Executive Director of the Internal Equities Department at Abu Dhabi Investment Authority.

In May 2004, Mohamed Darwish Al Khoori was nominated by ADIA to join the ADCB Board of Directors, and in April 2006, he was elected by the ADCB shareholders to be an ADCB Director.

He was subsequently nominated to be an ADCB Director by ADIC in March 2009. In March 2015, he was again nominated and elected by shareholders to be an ADCB Director.

Bachelor of Business Administration (Siena Heights University, Michigan, USA)

General Manager Program (Harvard Business School)

ADCB COMMITTEE MEMBERSHIPS:

Member—Risk & Credit Committee

Member—Nomination, Compensation & HR Committee

EXTERNAL APPOINTMENTS:

Chairman—Oman & Emirates Investment Holding Company—Board

Chairman—Oman & Emirates Investment Holding Company—Executive Committee

Chairman—The Financial Corporation (FINCORP)—Board

Chairman—The Financial Corporation (FINCORP)—Audit Committee

Member—Abu Dhabi Global Market (Board)

Member—Abu Dhabi Global Market (Audit Committee)

Executive Director—Abu Dhabi Investment Authority (Operations Department)

Member—ADIA's Investment Committee

Khalid Deemas Al Suwaidi

Independent, Non-Executive Director*

Khalid Deemas Al Suwaidi provides more than 15 years of banking experience, having held senior management positions in National Bank of Abu Dhabi and First Gulf Bank. He was appointed by the Abu Dhabi Investment Council 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.

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

Bachelor of Science/Computer Information Systems (Bethune Cookman College, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Corporate Governance Committee

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

Board Member—Manazel Real Estate Company

Vice Chairman—Abu Dhabi National Takaful Company

Group Chief Executive Officer—Das Holding

* Independent (assessed as per Bank policies and by reference to local regulations)

BOARD OF DIRECTORS (CONTINUED)

Mohamed Ali Al Dhaheri

Independent, Non-Executive Director*

Mohamed Ali Al Dhaheri supports the Board with his experience in financial services and investments. He was appointed by the Abu Dhabi Investment Council to join the ADCB Board of Directors in May 2007. Prior to joining ADIC, Mohamed Ali Al Dhaheri was the Chief Operating Officer of the Treasury Department in Abu Dhabi Investment Authority.

Mr. Al Dhaheri is currently the Executive Director of the Accounting & Financial Services Department, ADIC.

Bachelor of Business Administration (International University of America)

ADCB COMMITTEE MEMBERSHIPS:

Chairman—Corporate Governance Committee

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

Chairman—Invest AD

Abdulla Khalil Al Mutawa

Independent, Non-Executive Director*

Abdulla Khalil Al Mutawa is a skilled and dedicated investment professional with more than 35 years of experience and a comprehensive background in finance and administration. He was nominated by ADCB shareholders to join the ADCB Board of Directors in March 1997.

Bachelor of Business Administration (University of North Carolina, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Audit & Compliance Committee

EXTERNAL APPOINTMENTS:

General Manager—The Private Office of Sheikh Suroor bin Mohammed Al Nahyan

Board Member—Bank Alfalah Limited

Chairman—Makhazen Investment Company

Non-Executive Member—EFG Hermes Board

* Independent (assessed as per Bank policies and by reference to local regulations)

Sheikh Sultan bin Suroor Al Dhaheri

Independent, Non-Executive Director*

Sheikh Sultan bin Suroor Al Dhaheri has more than 10 years' experience in business and marketing and strong commercial knowledge. He was elected by ADCB shareholders to join the ADCB Board of Directors in March 2009.

Master of Business Administration (Abertay Dundee University, UK)

Bachelor in Business & Marketing (Middlesex University, London, UK)

ADCB COMMITTEE MEMBERSHIPS:

Member—Corporate Governance Committee

EXTERNAL APPOINTMENTS:

Chairman—SSD Group, Abu Dhabi Maritime & Mercantile International Co.

Chairman—Al Dhaana Holding

Faisal Suhail Al Dhaheri

Independent, Non-Executive Director*

Faisal Suhail Al Dhaheri brings a wealth of experience from working within the Abu Dhabi Investment Authority where he has managed a broad range of investment and organisational reforms. He is a member of the Strategy & Planning Department at ADIA and oversees its Alternative Investments mandates: strategic asset allocation and tactical hedges against strategic portfolios.

He was nominated by the Abu Dhabi Investment Council to join ADCB's Board of Directors in March 2016.

Chartered Alternative Investment Analyst (CAIA Association)

Chartered Financial Analyst (CFA Institute)

Bachelor of Islamic Law (Al-Imam Muhammad Ibn Saud Islamic University, KSA)

Master & Bachelor of Arts in Mathematics (Boston University, Massachusetts, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Corporate Governance Committee

EXTERNAL APPOINTMENTS:

Vice Chairman—Zayed Bin Sultan Al Nahayan Charitable & Humanitarian Foundation Investment Committee

* Independent (assessed as per Bank policies and by reference to local regulations)

BOARD OF DIRECTORS (CONTINUED)

Aysha Al Hallami

Independent, Non-Executive Director*

Aysha Al Hallami is a Research Specialist in the Real Estate and Infrastructure Department at the Abu Dhabi Investment Authority, where she has served for more than eight years. Aysha Al Hallami was appointed by the The Abu Dhabi Investment Council to join the ADCB Board of Directors in April 2013. Chartered Financial Analyst, CFA Institute.

Private Equity and Venture Capital, Harvard Business School

Master of Sciences in Finance & Banking, British University in Dubai in association with Cass Business School, City University, London

Bachelor of Science in Business Sciences: major in Finance, Zayed University, (Abu Dhabi, UAE)

ADCB COMMITTEE MEMBERSHIPS:

Chairperson—Audit & Compliance Committee

Member—Risk & Credit Committee

Khaled H. Al Khoori

Independent, Non-Executive Director*

Khaled H. Al Khoori brings more than 20 years commercial experience to ADCB and, since 2006, has been Chairman of Orient House for Development & Construction as well as serving on the Board of Abu Dhabi National Hotels from 2009. He was elected by ADCB shareholders to join ADCB's Board of Directors in April 2012.

Master of Civil Engineering (Northeastern University, USA)

Bachelor of Civil Engineering (Northeastern University, USA)

ADCB COMMITTEE MEMBERSHIPS:

Member—Risk & Credit Committee

Member—Corporate Governance Committee

EXTERNAL APPOINTMENTS:

Chairman—Orient House for Development & Construction

NCHR Committee—Abu Dhabi National Hotels (ADNH)

Board Executive Committee—Abu Dhabi National Hotels (ADNH)

Chairman of the Board of Directors—Abu Dhabi National Hotels (ADNH Compass)

* Independent (assessed as per Bank policies and by reference to local regulations)

Sir Gerry Grimstone

Adviser

Sir Gerry Grimstone brings significant international expertise and experience in investment banking and the financial services industry and serves on the boards of several high-profile public- and private-sector companies.

Sir Gerry, the immediate past Chairman of Standard Life Aberdeen, is the Chairman of Barclays Bank plc, Europe's largest investment bank, which oversees Barclays' Corporate and Investment Bank, Private Bank, and International Cards and Payments businesses. He was previously Chairman of TheCityUK, the representative body for financial services in the UK, 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.

He was appointed as an Adviser to the ADCB Board of Directors in 2013.

EXTERNAL APPOINTMENTS:

Chairman—Heng An Standard Life, a major Chinese Insurance Company

Non-Executive Director—HDFC Life, a major Indian Insurance Company

Lead Non-Executive Director—UK Ministry of Defence

Independent Non-Executive—Deloitte North West Europe

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 taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He previously held senior positions at Citibank and Standard Chartered Bank, amongst others. His responsibilities extend to 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.

Deepak Khullar

Group Chief Financial Officer

Deepak was appointed Group Chief Financial Officer in 2008 and is responsible for Group finance and strategy, investor relations and strategic sourcing. He previously spent 15 years with Standard Chartered Bank in the Middle East and in Korea. Before joining Standard Chartered, he worked for 12 years with Ernst & Young and Price Waterhouse & Co. (now PricewaterhouseCoopers) in the Middle East and India. Deepak is an Associate of the Institute of Chartered Accountants of India and an Associate Member of the Association of Corporate Treasurers (UK).

Siddiqa Abbas

Group Chief Operations Officer

Siddiqa Abbas was appointed as ADCB's Group Chief Operations Officer in 2018 and is the leader of the Bank's Group Business Services (GBS) division which includes the Technology, Operations, Customer Experience and Property Management teams. Siddiqa is responsible for ensuring the Bank has 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 has 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 captive) from 2016-2018. Siddiqa holds a Bachelor's Degree in Mass Media from the UAE University in Al Ain.

Colin Fraser

Group Head of Wholesale Banking

Colin completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduates. 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. In 2007, he was appointed Barclays' Corporate Banking Director, GCC, joining ADCB a year later as Head of the Wholesale Banking Group.

EXECUTIVE MANAGEMENT (CONTINUED)

Arup Mukhopadhyay

Group Head of Consumer Banking

Arup 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. In 2016, Arup was named the Retail Banker of the Year in the Middle East by *The Asian Banker,* Singapore.

Kevin Taylor

Group Treasurer

Kevin 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, and fixed income and investments personnel along with money market, balance sheet analytics teams. Kevin has over 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.

Ali Darwish

Group Head of Human Resources

Ali joined ADCB in 2010 and has more than 20 years banking experience, working in the top financial institutions in the UAE. As Group Head of Human Resources, he is responsible for driving a high-performing culture and engagement across the Bank. He has expertise in talent development, engagement, change management and business strategy.

Abdirizak Mohamed

Group Chief Internal Auditor

Abdirizak has been the Group Chief Internal Auditor at ADCB since 2006 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. Currently, he is the Chairman of the UAE Banking Federation Audit Committee, and continues to serve as an 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 has been Group General Counsel and Board Secretary at ADCB since 2008. After graduating from Durham University in the UK, he practised 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 highly instrumental in the Bank's recent recognition as a regional leader in corporate governance.

Paul Keating

Group Chief Risk Officer

Paul was appointed as ADCB's Group Chief Risk Officer in January 2018 having previously worked for the Australia and New Zealand Banking Group for over 30 years, where he served in various capacities across the world. Paul's last role at ANZ was the Chief Risk Officer and Head of Credit for the Pacific division, which was responsible for 11 countries. Paul has responsibility for Compliance, Operational Risk, Market Risk, Fraud Risk, 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.

Tilak Silva

Group Chief Credit Officer

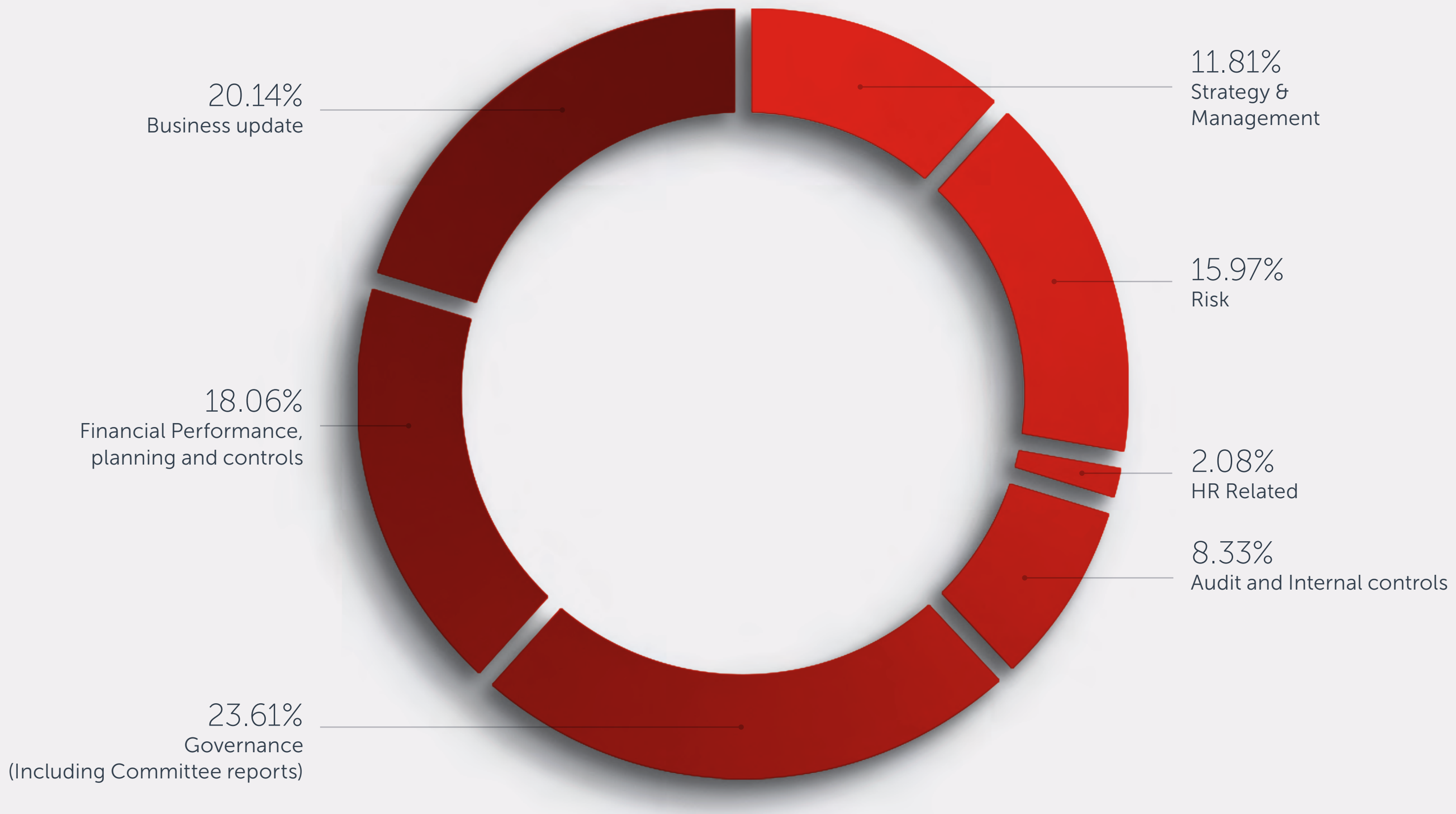
Tilak was appointed as the Group Chief Credit Officer in January 2018, having been the Acting Group Chief Risk Officer since March 2017. He has been with ADCB for 38 years, focussing on credit underwriting, remedial risk & restructuring. He has an in-depth understanding of the functionalities of all 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 believe good governance is the cornerstone of success. It underpins our integrity, reinforces the trust and confidence our investors place in us, and contributes to a strong and disciplined culture.

At ADCB, we have established a clear, well-understood governance framework that is regularly reviewed and adjusted to reflect changes in the Bank's businesses, regulation, the external environment and international best practice. Our commitment to world-class corporate governance and reporting not only clearly demonstrates our integrity, but also promotes transparency. This approach cements our reputation and supports our long-term success by attracting investment that benefits both the Bank and UAE society as a whole through the creation of jobs, growth and prosperity.

ANALYSIS OF TIME SPENT AT BOARD MEETINGS IN 2018



This section outlines some key aspects of the Bank's corporate governance framework that are most important to our shareholders.

THE BOARD: MEMBERSHIP, COMMITTEES AND MEETINGS

The Board, which consists of 11 members, met eight times in 2018. Directors received information between meetings about the activities of Board and management Committees and developments in the Bank's business.

Members of senior management were invited to all these meetings to enhance the Board's engagement with management and understanding of the business. In addition, Board Members regularly visited divisions of the Bank to enrich their knowledge of our operations.

The Board has four standing Committees, which cover: Audit & Compliance, Corporate Governance, Risk & Credit, and Nomination, Compensation & Human Resources. 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 53 times in 2018. 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 independence criteria of the Bank and local regulations.

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

To ensure that the Board has the benefit of an even greater range of independent thinking, Sir Gerry Grimstone was appointed as independent Adviser to the Board in 2013. In 2018, Sir Gerry attended five Board meetings, and the Board strategy session. His background and experience continues to enrich the Board's deliberations, particularly in the areas of strategy, Board reporting and effectiveness, performance assessments for senior management, succession planning, and assessment of risk appetite and rewards.

THE BOARD'S AGENDA IN 2018

The Board of Directors regularly discusses certain items that are fundamental to the direction of the Bank, such as 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 2018 are set out on pages 105 and 106.

BOARD AND BOARD COMMITTEE AGENDA ITEMS

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Governance	• 2018 Annual General Assembly agenda • Reports from Committee Chairmen, Committee minutes and other reports • Outcome of the 2017/2018 Board Evaluation • Board expenses summary for the year 2017 • Review of Directors' independence • External review of corporate governance action tracker • IT Governance • Conflict and related parties report • Review of Board Committee composition • IFRS 9 governance update	• Reports from Committee Chairmen, Committee minutes and other reports • IFRS 9 governance update	• Reports from Committee Chairmen, Committee minutes and other reports • Conflict of interest and related parties report • Procurement governance presentation • Update on sustainability strategy • Board evaluation 2017/2018 action tracker • Update on best practices developments • IFRS 9 governance process	• Reports from Committee Chairmen, Committee minutes and other reports • Conflict of interest and related parties report • Annual Report 2018 • 2019 Board agenda • IFRS 9 governance update
Financial Performance, planning and controls	• 2017 financial results, including business performance by Group • External Auditor presentation	• Q1 financial results, including business performance by Group • External auditor presentation	• Q2 financial results, including business performance by Group • Forecast for 2019 • External auditor presentation	• Q3 financial results, including business performance by Group • External auditor presentation
Group Chief Executive/ Business update	• Group CEO's update • Group Business Services (including technology, operations, customer experience and business & control) update • Results of customer satisfaction survey (including NPS) • Itmam Services update • ADGM Subsidiary update	• Group CEO's update • Wholesale Banking Group update • Abu Dhabi Commercial Properties and Abu Dhabi Commercial Engineering Services update • India branches update • HR Group update (including recruitment, training and development, and employee services)	• Group CEO's update • Consumer Banking update • Market update • Technology briefing	• Group CEO's update • 2019 funding plan • Treasury update • Merger update (including consultant budget)
HR Related/ Remuneration	• Board elections at the 2018 AGA • Emerging UAE National talent • Remuneration for 2017 performance • Board fee recommendation for year 2017 • Retention plan effectiveness • Group CEO's evaluation for 2017 and KPIs for 2018	• Variable pay effectiveness • Retention plan: 2018 awards • Semi-annual HR update • Update on LTIP purchases and vested/ unvested shares	• Performance recognition reward • Incentive plans-risk review • Compensation plans • Public reporting on remuneration	• Annual HR update • Reward update and governance process

BOARD AND BOARD COMMITTEE AGENDA ITEMS (CONTINUED)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Audit & Internal Controls	• Internal audit update (including financial budget, staff strength, training plan) • Re-appointment of statutory auditors • Internal audit plan for 2018 • Three year audit plan and strategy (2018-2020) • Declaration of internal audit independence • Internal control effectiveness report • Big 4 consultancy fees for year 2017 • Risk Assessment update • Evaluation of statutory auditor for 2017/re appointment for 2018 • External auditor fees for year 2018 • Internal quality assurance assessment review 2017 • ADAA Internal audit assessment (action plan tracker) • Directors' shareholdings	• Internal audit update • Audit and non-audit fees for 2018 • Central Bank guidance note on IFRS 9 • Business continuity management • EIBOR internal rate setting guidelines • Directors' shareholdings	• Internal audit update • Review of external auditors management letter for year 2017 • ADCB India's concurrent auditors • Whistleblowing policy update • Sanctions policy update • Directors' shareholdings	• Internal audit update • Suitability assessment policy • Anti-bribery & corruption policy • New Central Bank regulations • External auditor's plan for 2018 • Directors' shareholdings
Risk	• Risk update, including risk appetite • Portfolio Risk update • Compliance update • Contracting segment update • Enterprise wide liquidity stress test results • Cyber security assessment • Operational losses for year 2017 • ICAAP policy • ICAAP stress testing 2018 • Country risk appetite review • Geographic and FI risk update • SME portfolio update	• Portfolio risk update • Chief economist update • Compliance update • IT security update • Effectiveness of credit bureau • Retail portfolio scorecard • 2017 Central Bank stress testing • Market risk update • Enterprise wide liquidity stress test results • Liquidity contingency plan • UAE GRE risk appetite • Real estate segment review • ADCB India RBI risk assessment report	• Risk update (including risk appetite statement) • Portfolio risk update • Risk appetite framework • Compliance update • IT risk and security update • The Equator principles • Hospitality sector review • Market risk model validation and new methodologies • ADCB India ICAAP 2018-2019 • Market risk update • Commercial banking credit & risk policy • Wholesale model validation • Automotive dealers update	• Chief Economist's update • Compliance update • Credit risk policy for master risk participation agreements • Trade invoice financing program update • Underwriting and syndication policy • Liquidity update • Fraud update • Market risk update • Retail risk update • Portfolio risk update • Contractor segment review • ALM policy
Strategic items	• Performance versus strategy & KPIs • Competitor analysis—financial and strategic	• Three year capital plan and forecast • 2018 strategy day • Digitization update	• Competitor analysis—financial and strategic • Performance versus strategy & KPIs	• 2019 budget

PERFORMANCE EVALUATION

The Board undergoes a rigorous in-house performance evaluation regularly in line with global standards. It also regularly engages an independent external consultant to conduct a performance evaluation. These evaluations cover a wide range of topics and include an assessment of individual Board Members' performance, their 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 2018, the Board continued to ensure that its members received professional development in several areas, including operational risk, sanctions, and compliance (anti-money laundering and KYC.)

BOARD REMUNERATION

Directors' remuneration is set annually by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & Human Resources Committee prior to obtaining Board and shareholder 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 2018, 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.

The following table shows the amounts paid to the Directors for their service on the Board and its Committees in 2018.

				Board Member remuneration (AED, paid in 2018 for the year 2017)			Nomination, Compensation & HR Committee		
				Meetings[2]: 8			Meetings[2]: 4		
Members	Status	Year of appointment	Expiration of current term of office	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)
Eissa Mohamed Al Suwaidi	Non-Executive Director	2008	2020	C	8	1,150,000	M	4	16,000
Mohamed Sultan Ghannoum Al Hameli	Non-Executive Director	2004	2019	VC	8	875,000	C	4	20,000
Ala'a Eraiqat	Executive Director	2009	N/A	M	8	0			
Khaled H. Al Khoori	Non-Executive Director	2012	2018	M	6	700,000			
Mohamed Darwish Al Khoori	Non-Executive Director	2004	2018	M	8	700,000	M	4	16,000
Abdulla Khalil Al Mutawa	Non-Executive Director	1997	2018	M	8	700,000	M	2	8,000
Mohamed Ali Al Dhaheri	Non-Executive Director	2007	2019	M	7	700,000			
Sheikh Sultan bin Suroor Al Dhaheri	Non-Executive Director	2009	2018	M	6	700,000			
Khalid Deemas Al Suwaidi	Non-Executive Director	2009	2020	M	6	700,000	M	1	4,000
Aysha Al Hallami	Non-Executive Director	2013	2019	M	8	700,000			
Faisal Suhail Al Dhaheri	Non-Executive Director	2016	2020	M	5	700,000			
Total						7,625,000			64,000

1. *Non-BRCC members (who attended SBRCC meetings).*
2. *Meetings attended in 2018 year.*
3. *Chairman/Chairwoman from/until 13 March 2018.*

Board Risk & Credit Committee			Audit & Compliance Committee			Corporate Governance Committee				
Meetings[3]: 38			Meetings[3]: 9			Meetings[3]: 2				
Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Board Committee meeting fees (AED, paid in 2018)	Total (AED)
C	37	185,000							201,000	1,351,000
M	32	128,000							148,000	1,023,000
										0
M	38	152,000				M	2	8,000	160,000	860,000
M	26	104,000	C[3]	3	22,500				142,500	842,500
*[1]	8	32,000	M	9	54,000				94,000	794,000
*[1]	2	8,000	M	7	42,000	C	2	10,000	60,000	760,000
						M	2	8,000	8,000	708,000
			M	8	48,000	M	1	4,000	56,000	756,000
M	29	116,000	C[3]	9	63,000				179,000	879,000
*[1]	9	36,000							36,000	736,000
		761,000			229,500			30,000	1,084,000	8,709,500

ADCB DIRECTORS' SHAREHOLDINGS *(as at 31 December 2018)*

	As at 31 December 2017	As at 31 December 2018	Change in shareholding
Abdulla Khalil Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat*	2,271,758	2,569,797	298,039
Aysha Al Hallami	0	0	0
Eissa Mohamed Al Suwaidi	0	0	0
Khalid Deemas Al Suwaidi	0	0	0
Khaled H. Al Khoori	0	0	0
Mohamed Ali Al Dhaheri	0	0	0
Mohamed Darwish Al Khoori	91,892	91,892	0
Mohamed Sultan Ghannoum Al Hameli	0	0	0
Faisal Suhail Al Dhaheri	0	0	0
Sheikh Sultan bin Suroor Al Dhaheri	2,835,147	2,835,147	0

** Excluding: 271,758 restricted units in the Bank's LTIP scheme of which (1) 148,267 vested on 31 December 2018 and (2) 123,491 will vest on 31 December 2019 subject to early vesting.*

APPOINTMENT, RETIREMENT AND RE-ELECTION

All Directors are required to seek re-election by shareholders every three years, and one-third of the Board must seek re-election each year. 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 2018, the Abu Dhabi Investment Council held 62.52% of the Bank's issued share capital and, consequently, had the right to elect six Directors and to vote a further 2.52% of the Bank's capital at the Board elections.

BOARD OVERSIGHT OF RISK MANAGEMENT

Risk management is a key 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 refine 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, reviews stress tests and the Bank's stress-testing methodologies, oversees the management risk Committees, and ensures that our risk governance supports prudent risk-taking at all levels in the Bank.

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 Bank's strategic goals.

BOARD OVERSIGHT OF FINANCIAL REPORTING

Oversight of financial reporting and integrity of the Bank's financial disclosures are also key roles performed by your Board.

In 2018, 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 the implications of IFRS 9 on the financial statements and ensured the Bank's compliance with UAE Central Bank regulations relating to IFRS 9.

MANAGEMENT COMMITTEES

Committee name	Number of meetings held in 2018	Responsibilities of the Committee
Management Executive (MEC)	27 (including management offsite)	Most senior management Committee; oversees all Bank businesses and operations
Senior Management (SMC)	2	Responsible for administration, change management, strategy, and project updates and dissemination of other information; pre-screens certain matters before MEC review
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)	54 (50 Credit related MRCCs and 4 Policy MRCCs)	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
Management Recoveries (MRC)	0	Approves recoveries within delegated limits, and guides the MEC and the Board on recoveries above those limits
Capital Expenditure (CEC)	8	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
Liabilities & Initiatives (LICO)	4	Formulates the Bank's tactical liabilities initiatives at the business/product levels with ongoing monitoring of achievements of different product groups; responsible for cross-selling initiatives, monitoring product performance, and approving pricing and marketing of products to ensure a focussed approach to the market on gathering deposits
Management HR (MHRC)	2	Acts as a forum for prior screening, discussion and recommendation of all human resources–related matters that are ultimately determined by the MEC
Financial Performance Management (FPMC)	8	Monitors financial performance of the Bank's business lines
International Operations & Alliances (IO&AC)	4	Supports the MEC in its responsibility to oversee and manage the Bank's international operations and alliances (excluding the Bank's Jersey branch), including the India branch, the UK representative office, the Singapore representative office, and alliances in place from time to time

In addition, management has established several working groups that cover, amongst other things, customer experience, insurances and compliance.

AUDIT ARRANGEMENTS

Deloitte & Touche, the external auditors, were appointed at the 2015 Annual General Meeting (AGM) and reappointed at the 2016, 2017, and 2018 AGMs. Save for certain exceptions, Local laws and Bank policy restrict the external auditors' tenure to no more than three consecutive renewals.

Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2018, the audit fees for the Bank and its subsidiaries excluding India operations amounted to AED 1,437,095, and fees for non-audit work amounted to AED 1,613,546. Non-audit work comprised: a comfort letter related to the Bank's Global Medium Term Note Programme, review of IFRS 9 implementation, prudential returns for the Bank's Jersey Branch, 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 practices. In this year's annual report, we have again focussed on giving a clearer picture of our performance, business model and strategy.

In keeping with our leadership role on governance matters, 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 through this annual report, our quarterly market updates, our press releases, and the Bank's website. The Bank's Investor Relations department ensures strong communication with our investors and potential investors.

Finally, we take internal communications extremely seriously: Staff are kept aware of all new developments—including the Bank's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations, and other relevant information—via internal channels.

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.

To that end, ADCB structures remuneration packages so they reflect duties and responsibilities, 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.

As far as possible, bearing in mind 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.

Fixed Pay

Definition	Components	2018 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 2018, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 28.795 million.

Variable Pay

Definition	Performance Criteria	2017 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 • Bank overall performance For more information, see ADCB's Variable Pay Framework & Governance—Key Facts, on page 114.	For performance in 2017, awards to employees in 2018 consisted of cash variable pay awards of AED 140.96 million and deferred compensation plan awards of AED 46.58 million. Key Management received AED 26.035 million in cash and AED 20.315 million in deferred compensation from the amounts set forth above.

Retention Scheme

Definition	Selection Criteria	2018 Retention Scheme Awards
In 2014, ADCB introduced a share-based Retention Scheme for incumbents in key positions deemed 'mission critical' and for UAE Nationals deemed to have exceptional growth potential. 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 NCHR 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	In 2018, we awarded AED 14.95 million under the retention scheme. Awards were made to 95 employees, of whom 75% were UAE Nationals.

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.

The NCHR 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 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 industry average for same level.

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 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 Fatwa & Shari'ah Supervisory Board (FSSB). The FSSB operates in accordance with the standards and guidelines issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), and is the final authority within ADCB regarding all Shari'ah-related matters.

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

PROFESSOR JASSEM ALI AL SHAMSI, CHAIRMAN

Professor Jassem is the first Emirati Shari'ah scholar to lead the FSSB 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 FSSBs for Islamic banks/windows and financial institutions (FIs).

SHEIKH DR. NIZAM YAQUBI, 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 FSSB at several regional and global Islamic banks and financial institutions. He has a strong international reputation for his deep knowledge of banking and Shari'ah coupled with a progressive approach towards modern banking solutions.

DR. HUMAYON DAR, MEMBER

Dr. Dar holds a PhD in Economics from the University of Cambridge, UK, and is an expert in the field of Islamic banking and finance. He is a member of the FSSB at several Islamic banks and other financial institutions.

MR. KAMRAN KHALID SHERWANI, FSSB SECRETARY

Mr. Kamran is Shari'ah Advisory Lead at ADCB Islamic Banking. He provides Shari'ah guidance on all day-to-day Shari'ah-related matters and obtains FSSB 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 he has served as Shari'ah adviser to several major Islamic banks and other financial institutions.

STATEMENT FROM THE CHAIRWOMAN OF THE

Audit & Compliance Committee

COMPOSITION AS AT 31 DECEMBER 2018:

Aysha Al Hallami (Chairwoman), Khalid Deemas Al Suwaidi, Mohamed Ali Al Dhaheri, Abdulla Khalil Al Mutawa
Secretary: Rami Raslan

OUR REMIT

The primary responsibilities and functions of the Audit & Compliance Committee are to provide assistance to 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,

Our Committee held a total of nine meetings this year, during which we:

- 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 and models and their implications for the Bank's financial statements, and ensured the Bank's compliance with UAE Central Bank 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 2018, and exercised oversight of all non-audit work carried out by the external audit firm;
- oversaw the activities of the Bank's Group Compliance function, and received regulatory, conduct compliance, fraud and operational risk management updates;
- considered the performance, effectiveness and activities of the Bank's Internal Audit function, and its audit plan, charter, and manual;
- reviewed the effectiveness of the Bank's internal controls and ensured the existence of an effective system of internal controls;
- reviewed the 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, as appropriate;
- reviewed quarterly reports on the Bank's Directors' shareholdings in the Bank's shares; and
- reported regularly to the Bank's Board of Directors.

ACC RISK DISCUSSIONS
(allocation of time)

IFRS 9 IMPLEMENTATION

One of the areas of key focus in 2018 was on the Bank's implementation of, and transition to, IFRS 9. The Committee regularly met internal management and external auditors to ensure that the Bank's models, methodologies, policies, critical accounting judgements, and financial disclosures were all compliant with IFRS 9 requirements.

In addition to our own oversight, we had validation from an external consultant on the accuracy of the Bank's models. The Committee also reviewed the IFRS 9 expected credit loss (ECL) estimation and reporting process and analysed the IFRS 9 staging of the most significant accounts.

The Board approved the 2018 annual accounts, on the Committee's recommendation, based on the external auditors' report and following the Committee's review. We are satisfied that the Bank remains within its guidelines and policies for provisioning purposes and that the provisions for year 2018 remain at an adequate level and in accordance with IFRS 9.

We met both the external and internal auditors regularly 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 adequate flow of information between the two forums and provide suitable insights.

The Committee focussed on ensuring that legal and regulatory requirements continue to be met and that compliance with those requirements is embedded in the Bank's financial and operational business models. In 2018, these included the Net Stable Funding Ratio, VAT, and other Basel III requirements.

We had confirmation from the Bank's Internal Audit Group and external auditors that the Bank's internal controls have been assessed for effectiveness and met all requirements. In addition, the Bank initiated an exercise to implement an internal controls framework (including internal controls over financial reporting) in accordance with COSO 2013 standards.

LOOKING AHEAD

We anticipate holding eight meetings in 2019 and expect to focus on the integrity of the Bank's financial statements, its provisioning and ECL models, its Internal Audit and Compliance functions, activities and performance, and the performance of the Bank's external auditors.

The Committee will also oversee the adoption of the COSO 2013 standards and the Bank's transition to IFRS 16. We will continue to work with internal 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.

We will also continue to coordinate our activities with those of the Board Risk & Credit Committee to ensure a free-flow of information between them. The Committee will look into recommending a new external auditor for the Board's and the shareholders' approval, in line with local and international best practices concerning external auditor rotation.

Finally, we are committed to ensuring that the Bank's Internal Audit and Compliance functions are in adherence to the recently issued Central Bank regulations in this regard.

I am satisfied that we once again made positive progress in delivering our responsibilities and objectives during 2018 and look forward to another rewarding year in 2019.

Aysha Al Hallami
CHAIRWOMAN OF THE BOARD'S
AUDIT & COMPLIANCE COMMITTEE

STATEMENT FROM THE CHAIRMAN OF THE

Nomination, Compensation & HR Committee

COMPOSITION AS AT 31 DECEMBER 2018:

Mohamed Sultan Ghannoum Al Hameli (Chairman), Eissa Mohamed Al Suwaidi, Khalid Deemas Al Suwaidi, Mohamed Darwish Al Khoori
Secretary: Rami Raslan

OUR REMIT

The Nomination, Compensation & HR Committee is responsible for:

- ensuring the appropriate composition of the Board;
- ensuring Independent Directors remain independent on a continuous basis;
- selection and appointment of Directors;
- orientation and training sessions for new and existing Directors;
- succession planning for Board Members and senior management;
- selection and appointment of senior management;
- performance assessment of the Board, individual Directors and senior management;
- development, application and review of human resources and training policies;
- determining ADCB's requirements for executive managers and employees;
- remuneration policies for management and the Board, and the Bank's remuneration and incentive plans; and
- ADCB's public reporting on remuneration matters.

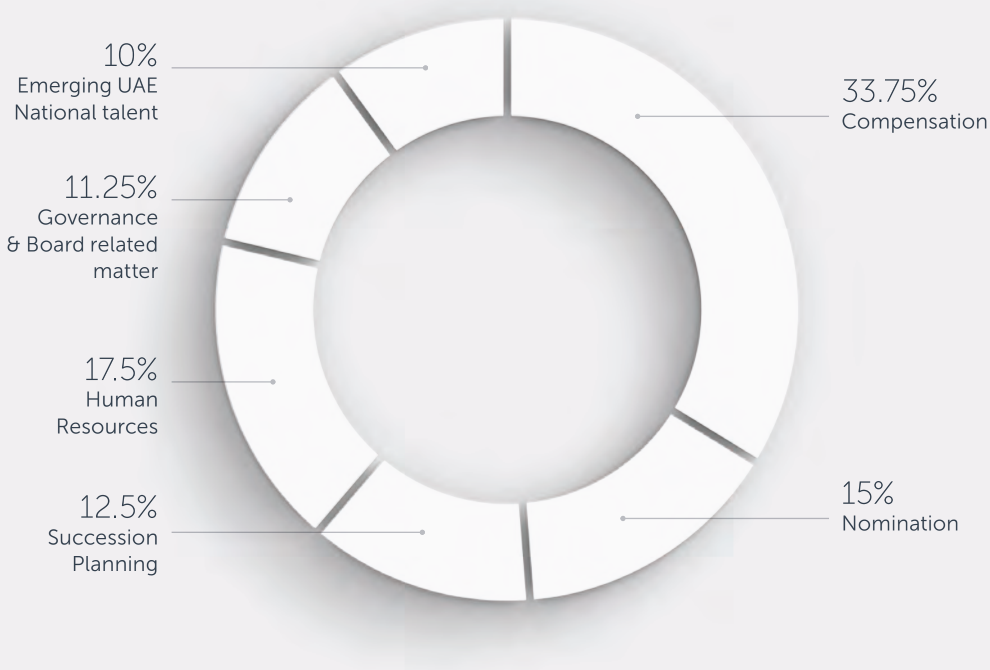
Dear Shareholders,

During 2018, our principal areas of focus were on the Bank's Human Resources strategy, the effectiveness of our remuneration strategy, the strength of the Bank's retention plans, and the Board's independence and composition, including, in particular, the collective mix of skills and experience. The Committee met five times throughout the year.

In particular, the Committee:

- received regular updates from the Bank's Human Resources team;
- reviewed key principles of the Bank's retention plan and assessed its effectiveness;
- reviewed the Board's composition, including considering rotation of memberships of the Board Committees;
- assessed Directors' remuneration and fees;
- assessed Board Members' independence status as per the UAE Central Bank's draft corporate governance guidelines, in addition to institutional investors' views about 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 fixed and variable pay, retention awards and performance recognition awards, and assessed the effectiveness of the Bank's remuneration strategy;
- approved the compensation of senior management;
- reviewed the framework for, and operation of, the Bank's incentive plans and commission schemes, considered a risk assessment of those schemes, and recommended certain changes;
- considered the Bank's disclosure and transparency practices with regards to the Bank's public reporting on remuneration;
- managed the Banks long-term succession strategy, assessed succession plans for key executives and focussed on talent management;
- reviewed the Bank's key Human Resources policies and processes;
- remained focussed on the Bank's Emiratisation strategy. In particular, the Committee ensured that the Bank exceeded the target set by the Central Bank in this regard for year 2018;
- reviewed the approach to diversity and diversity metrics across the Bank; and
- considered and assessed the contributions of the Board Adviser to the Board's activities.

NCHR RISK DISCUSSIONS
(allocation of time)



INDEPENDENCE

During 2018, the Board tested the independence status of each Director as well as the mix of skills they bring to the Board in relation to draft guidelines on corporate governance from UAE Central Bank.

As part of our drive for continuous development, the Committee recommended that the Board develop its skills further either through the appointment of new members, by participating in a number of high-level training programmes, or by engaging experts in advisory capacities. We also highlighted the importance and value of rotating the members of the Board Committees.

DIVERSITY

Our commitment to diversity and the Bank's Emiratisation strategy was another area of focus throughout 2018. We exceeded the Emiratisation target set by the UAE Central Bank, increased the overall number of UAE Nationals employed by the Bank and increased the number of UAE Nationals holding critical roles at the Bank.

The Bank also continued to prioritise UAE National development: UAE Nationals attended more than 45,000 hours of learning sessions and learning and development numbers are expected to grow further as ADCB introduces new UAE National learning curricula.

Meanwhile, we reviewed our variable remuneration and continued to develop KPIs to assess the effectiveness of the Bank's remuneration schemes. Applying those KPIs, the Committee observed that the remuneration schemes continue to deliver the desired objectives.

The 2018 evaluation showed a positive effectiveness trend for each KPI. We believe that the Bank's remuneration policies remain appropriate for the Bank's size and status, and that the remuneration framework is in line with international best practices.

LOOKING AHEAD

Integration and shared best practices are likely to be the key agenda items in the coming year as we seek to benefit from the merger with UNB and our acquisition of Al Hilal Bank, subject to shareholder and regulatory approval.

In 2019, the Committee will continue the focus on our Emiratisation strategy and HR activities, working to enhance the Bank's culture through talent acquisition, retention and development as well as encouraging staff training and our on-going digital transformation.

The Committee will consider Board Committees' memberships, the design of incentive and compensation schemes (including independent assessments of compensation practices), and the Bank's diversity policies. The Committee will also further address diversity in the workplace and consider diversity objectives and strategies.

The Committee considers that it made positive progress towards meeting its responsibilities in 2018 and looks forward to providing additional value to the Bank next year.

Mohamed Sultan Ghannoum Al Hameli
CHAIRMAN OF THE BOARD'S NOMINATION, COMPENSATION & HR COMMITTEE

STATEMENT FROM THE CHAIRMAN OF THE

Risk & Credit Committee

COMPOSITION AS AT 31 DECEMBER 2018:

Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H Al Khoori, Aysha Al Hallami, Mohammed Darwish Khoori

Secretary: Rami Raslan

OUR REMIT

The Risk & Credit Committee is responsible for:

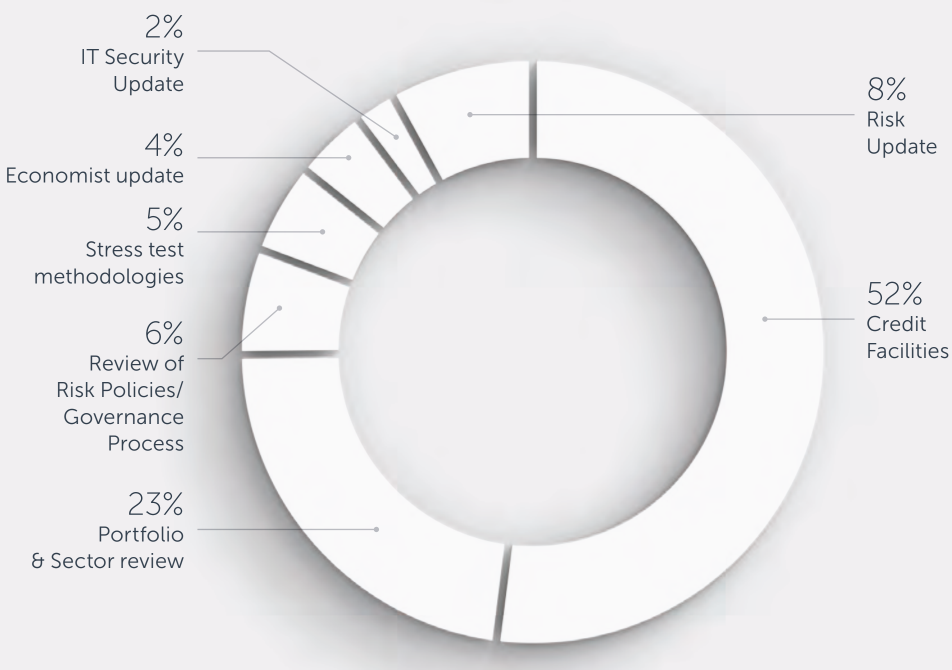
- development of risk management tools;
- development and implementation of risk management strategies and limits, and the Bank's risk appetite;
- compliance with regulatory requirements relating to risk management;
- public reporting on risk management matters; and
- major credit commitments of the Bank.

Dear Shareholders,

We held a total of 38 meetings during 2018, during which the Committee:

- assisted the Board in defining the Bank's risk appetite and risk strategy, and ensured that its risk exposures conform to the risk appetite approved by the Board;
- reviewed the Bank's key risk limits including liquidity, credit, market, and operational risk limits, and ensured that these risks are being managed within the Bank's internal controls framework;
- considered the Bank's concentrations and sectoral credit exposures, and ensured that its overall concentration and sectoral credit exposures are in line with the UAE Central Bank regulations;
- reviewed management decisions on credit exposures;
- reviewed and discussed the Bank's strategy to transition to IFRS 9;
- ensured that the Bank's IFRS 9 governance process is prudent and in line with the UAE Central Bank requirements;
- reviewed the Bank's IT, physical security and cyber risks, and ensured that it has implemented a proactive approach towards managing these risks;
- kept abreast of UAE's economic developments and analysed related geographic risks;
- approved the Bank's adoption of the Equator Principles to ensure determination, assessment and management of environmental and social risks in projects underwritten by the Bank;
- monitored the effectiveness of the Bank's risk management functions;
- reviewed and discussed the Bank's implementation of its digital strategy;
- considered the outcome of stress tests and reverse stress tests conducted on various key portfolios, and ensured that outcomes of such tests were reflected in the Bank's risk appetite, capital adequacy assessments, budgets, capital and liquidity plans;
- considered the Bank's enterprise-wide liquidity stress testing results;
- reviewed the Bank's contingency funding plan and monitored the Bank's liquidity risk;
- considered the Bank's business continuity plan; and
- approved and oversaw the implementation of key policies, including, but not limited to, the internal capital adequacy assessment process, and ensured that new regulations were reflected as appropriate.

BRCC RISK DISCUSSIONS
(allocation of time)



RISK APPETITE

One of the key focus areas for the Committee in 2018 was to review the Bank's adherence to its risk appetite and strategy. In particular, we ensured that the Bank's risk appetite metrics remain appropriate in light of changing market conditions and regulatory requirements.

Together with our colleagues on the Audit and Compliance Committee, we oversaw the Bank's implementation of, and transition to, IFRS 9. In particular, the Committee assessed the Bank's IFRS 9 expected credit loss estimation and reporting process, staging of the most significant accounts, and ensured the validation of the Bank's IFRS 9 models.

Due to the sustained economic challenges in the market, we continued to focus on ensuring that the UAE Central Bank requirements on stress testing were met. The Committee, in collaboration with management, ensured that the Bank's stress testing methodologies and models were reviewed and validated by independent consultants.

LOOKING AHEAD

In 2019, we anticipate holding eight meetings focussed on the Bank's risk strategy, appetite, and stress testing.

We will also continue to consider high-value or sensitive credit decisions. In line with recent UAE Central Bank regulations, the Committee may consider being involved (along with the Board Audit and Compliance Committee) in assessing the performance of the Bank's compliance functions. We will assess the Bank's compliance with new UAE Central Bank regulations on market risk, operational risk, and interest rate risk management.

We will also continue to assess the effectiveness of the Bank's IFRS 9 policies and governance practices, while assessing the appropriateness of the Bank's risk strategy and limits against the nature, size, and complexity of its business.

Finally, I am pleased to note that our Committee made positive progress in 2018 as we continued to meet our responsibilities and objectives. I look forward to continuing this progress in 2019.

Eissa Mohamed Al Suwaidi
CHAIRMAN OF THE BOARD'S RISK & CREDIT COMMITTEE

STATEMENT FROM THE CHAIRMAN OF THE

Corporate Governance Committee

COMPOSITION AS AT 31 DECEMBER 2018:

Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhaheri, Faisal Al Dhaheri, Khaled H Al Khoori
Secretary: Rami Raslan

OUR REMIT

The Corporate Governance Committee is responsible for:

- development of corporate governance procedures and best practices within the Bank;
- compliance with regulatory requirements relating to corporate governance;
- public reporting on corporate governance matters;
- overseeing the annual Board evaluation process, and implementation of recommendations arising from that process; and
- ensuring compliance with the Bank's Code of Corporate Governance.

The role of the Corporate Governance Committee is advisory. Recommendations are made to the Board for final approval.

Dear Shareholders,

In 2018, we held two meetings where the Committee:

- assessed the outcome of the Board evaluation and the adoption and monitoring of the action plan arising from it (see details below);
- reviewed the Bank's Information Technology governance (see details below);
- reviewed the Bank's approach to procurement governance and vendor management practices (see details below);
- reviewed the Bank's sustainability strategy and approach;
- provided guidance on enhancing governance practices by engaging with the Bank's divisions and various businesses on the governance framework;
- assessed Directors' professional development requirements for 2018, and oversaw the Directors' training program, including training on market risk, information security, anti-money laundering and sanctions, and operational risk;
- published corporate governance information, including information included in the Bank's annual report and on the Bank's website;
- monitored for Directors' conflicts of interest and related parties' transactions; and
- reviewed and enhanced best practices in corporate governance.

CGC RISK DISCUSSIONS
(allocation of time)

GOVERNANCE FRAMEWORK

During 2018, we focussed on developing the Bank's governance framework. In particular, the Committee addressed observations and followed up on recommendations from reviews of the Bank's corporate governance framework carried out in 2017 by KPMG and the Bank's Internal Audit Group.

We also reviewed the 2017/2018 Board evaluation results, following up on actions that came out of this study, including enhancing the flow of information to and from the Board on the Bank's digital transformation strategy and KPIs.

The Bank's procurement governance was assessed by the Committee again this year. I am pleased to note that the procurement process, set out in an internal procurement policy, aligns with international best practice. This process and policy are reviewed and approved annually.

Similarly, we reviewed and assessed ADCB's Information Technology governance, testing it against international standards of best practice, and were satisfied it remains strong.

The Committee also discussed recent developments around sustainability and approved enhancements to the Bank's sustainability program.

LOOKING AHEAD

We expect a large part of our work in 2019 to be focussed on integration and best practice, once the merger with UNB and our acquisition of Al Hilal Bank is approved by regulators and shareholders. Ensuring world-class governance processes remains fundamental to our success.

The Committee's agenda for 2019 reflects our ongoing commitment to raising governance standards across the Bank. The Committee will focus on the Board's effectiveness, particularly in defining the Bank's purpose and assessment and engagement with stakeholders. We will also consider subsidiary governance, risk governance, sustainability, monitoring culture and values, as well as ethics and compliance. Finally, we anticipate new regulations on corporate governance from the UAE Central Bank. We are confident our existing compliance will meet all the requirements of these new regulations.

I believe the Committee made positive progress this year in implementing the Bank's corporate governance programme. The Committee believes that all levels of the Bank, including the Chairman, Board Members, Group Chief Executive Officer, senior management and staff, remain committed to the Bank's corporate governance framework and to maintaining a strong governance culture.

Mohamed Ali Al Dhaheri
CHAIRMAN OF THE BOARD'S CORPORATE GOVERNANCE 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
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- Internal audits, regulation and supervision
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- Codes, standards and communications
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CONSOLIDATED FINANCIAL STATEMENTS

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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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

First-time adoption of IFRS 9: *Financial Instruments* — Estimation uncertainty with respect to the transition effect of expected credit losses (ECL) on loan and advances to customers

AREA OF FOCUS

The Bank adopted the IFRS 9: *Financial Instruments* from 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Bank elected not to restate the comparative figures and recorded an adjustment of AED 1.5 billion to its opening retained earnings as at 1 January 2018.

The changes required to processes, systems and controls to comply with IFRS 9 were complex and significant, as the standard requires a fundamental change to the way, when Expected Credit Losses (ECL) are recognised and how these are measured. There was a risk that inadequate data as well as lack of uniformity in the data makes it difficult to develop models, which are sufficient for IFRS 9 impairment requirements. Moreover, differences between regulatory requirements for provisioning and IFRS 9 with respect to Probability of Default (PD) and Loss given Default (LGD), and also non-availability of past data and models for determining forward-looking estimates may limit the precision of credit risk systems. The Bank was also required to make a number of judgements, assumptions and estimates, which includes adopting a 'default' definition and developing PDs at origination, lifetime-PDs, and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays. The Bank also applied proxies and practical expedients in certain situations where sufficient historical or future data is not available without undue cost or effort. There was also a risk that as at 1 January 2018 that the Bank used hindsight, especially while performing the staging assessment of loans and advances to customers.

The Bank's transitional disclosures to IFRS 9 are included in Note 3.6 to the consolidated financial statements.

OUR AUDIT APPROACH

The transition to the new impairment model was prepared under an interim control environment where models went through ongoing validation during the reporting period. We therefore updated our views regarding the risk associated with the transition to IFRS 9 impairment model to be significant.

We updated our understanding of the Bank's adoption of IFRS 9, including identifying any new risk of material misstatement and related audit procedures. We obtained an understanding of internal controls including entity level controls adopted by the Bank for the accounting, processes and systems under the new accounting standard and evaluated the impact on related IT systems and risks arising from IT in conjunction with our IT specialists.

We considered the appropriateness of key technical decisions, judgments and accounting policy elections made by the Bank to ensure compliance with IFRS 9 impairment requirements. We involved our credit risk modelling specialists in the consideration of principal credit risk modelling decisions against requirements of the accounting standard and industry practice.

We understood and evaluated, with the assistance of our specialists, the models developed for ECL calculations, assumptions and data used by the Bank for impairment measurement, which included the evaluation of the process for reflecting forward looking macroeconomic scenarios and models for exposures arising from loan commitments and financial guarantee contracts. We re-performed certain model calculations to confirm the risk parameter outputs and ECL amounts, and found the results were appropriate.

We tested the recognition of post model adjustments and management overlays in the context of key model and data limitations identified by the Bank, focusing on PD and LGD used for corporate loans, challenged their rationale and recalculated where necessary. We also considered the Bank's internal controls and governance process around the calculations, the ECL methodology and approvals of post model adjustments, management overlays and output of IFRS 9 models and related transitional impact. We also considered the staging of the loans and advances to customers as at 1 January 2018, to assess whether the Bank did not improperly use hindsight.

Loan loss impairments — Estimation uncertainty with respect to impairment allowances for loan and advances to customers

AREA OF FOCUS

The assessment of the Bank's determination of impairment allowances for loans and advances to customer requires management to make significant judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 59.5% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models.

The material portion of the non-retail portfolio of loans and advances is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. There is the risk that management does not capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management bias may also be involved in manual staging override as per the Bank's policies. There is also the risk that judgements, assumptions, estimates, proxies and practical expedients implemented at the transition date, are not consistently applied throughout the reporting period or there are any unjustified movements in management overlays.

The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and went through a validation process by an independent reviewer.

The Bank's accounting policy and credit risk management disclosures are included in Notes 3 and 42 to the consolidated financial statements.

OUR AUDIT APPROACH

We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes.

On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. 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 not tested individually, we evaluated controls over the modelling process, including model monitoring, validation and approval. We tested controls over model outputs. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios including the related weighting.

We tested 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.

We evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses.

The bank performed an external validation of the PD and LGD models including macro-economic model during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate.

Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the Bank's forecasts of future economic conditions at the reporting date.

Valuation of derivatives and application of hedge accounting

AREA OF FOCUS

The valuation of the Bank's derivative book measured at fair value was a key area of audit focus due to the complexity of the valuation process and significance of the notional amounts held (AED 696 billion).

The Bank holds or issues derivative contracts for trading purpose, and also for hedging customers' exposures or to hedge its own books. The valuation of these instruments remains a complex area, in particular when the fair value is established using a valuation technique due to the instrument's complexity or due to the lack of availability of market-based data. Those valuations involve significant judgements over the selection of an appropriate valuation methodology and inputs used in the models.

When the Bank enters into derivative contracts for hedging purposes, there is the risk that qualifying criteria for hedge accounting are not met or the results of the hedge effectiveness testing are not calculated or accounted for correctly.

Due to the complexity of the above matters, our audit was focused on testing the valuation methodology of derivative financial instruments and ensuring the qualification of hedge accounting.

The Bank's accounting policy and fair value disclosures are included in Notes 3.14, 3.15, 9 and 40 to the consolidated financial statements.

OUR AUDIT APPROACH

Our audit procedures included testing the design and operating effectiveness of relevant controls in the Bank's financial instruments valuation process and hedge accounting.

We also involved our valuation specialists to assess the valuation of derivatives and to review the accounting for qualifying hedging relationships including hedge designation and effectiveness assessment. For model-based valuations, we have compared observable inputs against independent sources and externally available market data to evaluate compliance with IFRS 13: *Fair Value Measurement*.

We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to key assumptions.

IT systems and controls over financial reporting

AREA OF FOCUS

We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.

OUR AUDIT APPROACH

Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists. Our audit procedures included:

- Update the IT understanding on applications relevant to financial reporting including Swift/FTS messaging and the infrastructure supporting these applications;
- Test of IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Examine computer generated information used in financial reports from relevant applications and key controls over their report logics;
- Assess the reliability and continuity of the information system environment;
- Perform testing on the key automated controls on significant IT systems relevant to business processes; and
- Perform journal entry testing as stipulated by the International Standard 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 International Financial Reporting Standards 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 judgment 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 2018;
- 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 2018 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 2018; and
- note 52 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2018.

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 evidence obtained, nothing has come to our attention that, in all material respects, causes us to believe that during the financial year ended 31 December 2018 the Bank has not been in compliance with

- its Articles of Association which had a direct effect on the determination of more than clearly inconsequential amounts and disclosures in the Bank's consolidated financial statements as at 31 December 2018; and
- laws, resolutions and circulars organising the Bank's operations that compliance with which may be fundamental to the operating aspects of the Bank's business, to its ability to continue its business, or to avoid more than clearly inconsequential penalties.

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
29 January 2019
Abu Dhabi
United Arab Emirates

ABU DHABI COMMERCIAL BANK PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	Notes	2018 AED'000	2017 AED'000	2018 USD'000
Assets				
Cash and balances with central banks, net	5	19,589,957	19,997,123	5,333,503
Deposits and balances due from banks, net	6	19,627,076	11,451,956	5,343,609
Reverse-repo placements	7	2,203,800	98,578	600,000
Trading securities	8	60,134	485,301	16,372
Derivative financial instruments	9	4,447,247	3,820,364	1,210,794
Investment securities	10	52,362,234	49,191,657	14,255,985
Loans and advances to customers, net	11	166,425,762	163,282,230	45,310,580
Investment in associate	12	205,158	205,372	55,856
Investment properties	13	576,671	634,780	157,003
Other assets, net	14	13,349,694	14,875,838	3,634,548
Property and equipment, net	15	982,605	960,096	267,521
Total assets		**279,830,338**	265,003,295	**76,185,771**
Liabilities				
Due to banks	16	3,071,408	5,177,129	836,212
Derivative financial instruments	9	5,695,911	4,234,481	1,550,752
Deposits from customers	17	176,653,857	163,078,386	48,095,251
Euro commercial paper	18	3,279,302	2,909,845	892,813
Borrowings	19	43,027,749	40,555,195	11,714,606
Other liabilities	20	15,296,568	16,603,319	4,164,598
Total liabilities		**247,024,795**	232,558,355	**67,254,232**
Equity				
Share capital	21	5,198,231	5,198,231	1,415,255
Share premium		2,419,999	2,419,999	658,862
Other reserves	22	6,859,271	7,484,927	1,867,484
Retained earnings		14,328,042	13,341,783	3,900,910
Capital notes	25	4,000,000	4,000,000	1,089,028
Total equity		**32,805,543**	32,444,940	**8,931,539**
Total liabilities and equity		**279,830,338**	265,003,295	**76,185,771**

These consolidated financial statements were approved by the Board of Directors and authorised for issue on January 29, 2019 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, 2018

	Notes	2018 AED'000	2017 AED'000	2018 USD'000
Interest income	26	10,314,941	8,772,562	2,808,315
Interest expense	27	(4,202,662)	(3,031,135)	(1,144,204)
Net interest income		6,112,279	5,741,427	1,664,111
Income from Islamic financing	23	1,276,746	1,081,671	347,603
Islamic profit distribution	23	(169,901)	(122,040)	(46,257)
Net income from Islamic financing		1,106,845	959,631	301,346
Total net interest and Islamic financing income		7,219,124	6,701,058	1,965,457
Net fees and commission income	28	1,394,576	1,507,042	379,683
Net trading income	29	431,805	353,977	117,562
Net losses from investment properties	13	(56,459)	(34,173)	(15,371)
Other operating income	30	192,399	367,420	52,382
Operating income		9,181,445	8,895,324	2,499,713
Operating expenses	31	(3,083,501)	(2,947,581)	(839,505)
Operating profit before impairment allowances		6,097,944	5,947,743	1,660,208
Impairment allowances	32	(1,265,787)	(1,673,620)	(344,619)
Operating profit after impairment allowances		4,832,157	4,274,123	1,315,589
Share in profit of associate	12	10,070	9,845	2,741
Profit before taxation		4,842,227	4,283,968	1,318,330
Overseas income tax expense		(2,373)	(6,360)	(646)
Net profit for the year		4,839,854	4,277,608	1,317,684
Basic earnings per share (AED/USD)	33	0.90	0.80	0.25
Diluted earnings per share (AED/USD)	33	0.90	0.79	0.25

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 AED'000	2017 AED'000	2018 USD'000
Net profit for the year	**4,839,854**	4,277,608	**1,317,684**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 22)	**(21,054)**	13,546	**(5,732)**
Net movement in cash flow hedge reserve (Note 22)	**41,592**	(46,877)	**11,323**
Net movement in revaluation reserve of debt instruments measured at FVTOCI (Note 22)	**(726,006)**	–	**(197,660)**
Net movement in fair value of investment securities (Note 22)	**–**	45,830	**–**
	(705,468)	12,499	**(192,069)**
Items that may not be re-classified subsequently to the consolidated income statement			
Net movement in revaluation reserve of equity instruments measured at FVTOCI (Note 22)	**(92,693)**	–	**(25,236)**
Actuarial gains on defined benefit obligation (Note 20)	**13,157**	2,022	**3,582**
	(79,536)	2,022	**(21,654)**
Other comprehensive (loss)/income for the year	**(785,004)**	14,521	**(213,723)**
Total comprehensive income for the year	**4,054,850**	4,292,129	**1,103,961**

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, 2018

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Total equity AED'000
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**
Effect of change in accounting policy for IFRS 9 (Note 3.6)	**–**	**–**	**149,349**	**(1,510,228)**	**–**	**(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**
Net profit for the year	**–**	**–**	**–**	**4,839,854**	**–**	**4,839,854**
Other comprehensive (loss)/income for the year	**–**	**–**	**(798,161)**	**13,157**	**–**	**(785,004)**
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI (Note 22)	**–**	**–**	**–**	**1,588**	**–**	**1,588**
Other movements (Note 22)	**–**	**–**	**23,156**	**(66)**	**–**	**23,090**
Dividends paid to equity holders of the Bank	**–**	**–**	**–**	**(2,183,257)**	**–**	**(2,183,257)**
Capital notes coupon paid (Note 33)	**–**	**–**	**–**	**(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**
As at January 1, 2017	5,198,231	2,419,999	7,437,283	11,295,372	4,000,000	30,350,885
Net profit for the year	–	–	–	4,277,608	–	4,277,608
Other comprehensive income for the year	–	–	12,499	2,022	–	14,521
Other movements (Note 22)	–	–	35,145	1,939	–	37,084
Dividends paid to equity holders of the Bank	–	–	–	(2,079,292)	–	(2,079,292)
Capital notes coupon paid (Note 33)	–	–	–	(155,866)	–	(155,866)
As at December 31, 2017	5,198,231	2,419,999	7,484,927	13,341,783	4,000,000	32,444,940

For the year ended December 31, 2018, the Board of Directors has proposed to pay a cash dividend representing 46% of the paid up capital (Note 21).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 AED'000	2017 AED'000	2018 USD'000
OPERATING ACTIVITIES			
Profit before taxation	**4,842,227**	4,283,968	**1,318,330**
Adjustments for:			
Depreciation on property and equipment (Note 15)	**175,927**	165,114	**47,897**
Gain on sale of property and equipment	**–**	(73,844)	**–**
Net losses from investment properties (Note 13)	**56,459**	34,173	**15,371**
Impairment allowances (Note 32)	**1,483,876**	1,932,526	**403,996**
Share in profit of associate (Note 12)	**(10,070)**	(9,845)	**(2,741)**
Discount unwind (Note 42.3)	**(19,380)**	(51,515)	**(5,276)**
Net losses/(gains) from disposal of investment securities (Note 30)	**10,474**	(46,715)	**2,852**
Interest income on investment securities	**(1,663,637)**	(1,208,585)	**(452,937)**
Dividend income on investment securities (Note 30)	**(1,722)**	(1,850)	**(469)**
Interest expense on borrowings and euro commercial paper	**1,437,105**	1,006,264	**391,262**
Net (gains)/losses from trading securities (Note 29)	**(11,052)**	7,785	**(3,009)**
Ineffective portion of hedges — gains (Note 9)	**(16,012)**	(20,720)	**(4,359)**
Employees' incentive plan expense (Note 24)	**23,090**	37,084	**6,286**
Cash flow from operating activities before changes in operating assets and liabilities	**6,307,285**	6,053,840	**1,717,203**
Increase in balances with central banks	**–**	(128,555)	**–**
Increase in due from banks	**(5,075,891)**	(3,200,020)	**(1,381,947)**
Net movement in derivative financial instruments	**(86,671)**	(166,985)	**(23,597)**
Net disposals/(purchases) of trading securities	**436,219**	(74,328)	**118,764**
Increase in loans and advances to customers	**(5,724,086)**	(6,685,248)	**(1,558,423)**
Increase in other assets, net	**(393,940)**	(176,596)	**(107,253)**
Increase/(decrease) in due to banks	**473,116**	(297,792)	**128,809**
Increase in deposits from customers	**13,575,599**	7,635,514	**3,696,052**
Increase in other liabilities	**352,496**	202,487	**95,970**
Net cash from operations	**9,864,127**	3,162,317	**2,685,578**
Overseas tax paid, net	**(968)**	(7,044)	**(264)**
Net cash from operating activities	**9,863,159**	3,155,273	**2,685,314**
INVESTING ACTIVITIES			
Proceeds from redemption/disposal of investment securities	**25,222,247**	10,406,784	**6,866,934**
Net purchase of investment securities	**(29,504,274)**	(26,267,582)	**(8,032,745)**
Interest received on investment securities	**1,785,592**	1,338,123	**486,140**
Dividends received on investment securities (Note 30)	**1,722**	1,850	**469**
Dividends received from associate	**10,284**	9,450	**2,800**
Net disposals of/(additions to) investment properties (Note 13)	**1,650**	(1,000)	**449**
Net proceeds from disposal of property and equipment	**–**	74,040	**–**
Net purchase of property and equipment	**(198,436)**	(198,721)	**(54,026)**
Net cash used in investing activities	**(2,681,215)**	(14,637,056)	**(729,979)**
FINANCING ACTIVITIES			
Net increase/(decrease) in euro commercial paper (Note 18)	**324,195**	(5,883,329)	**88,264**
Net increase in borrowings (Note 19)	**3,003,835**	1,505,267	**817,816**
Interest paid on borrowings and euro commercial paper	**(868,623)**	(744,568)	**(236,489)**
Dividends paid to equity holders of the Bank	**(2,183,257)**	(2,079,292)	**(594,407)**
Capital notes coupon paid (Note 33)	**(174,789)**	(155,866)	**(47,588)**
Net cash from/(used in) financing activities	**101,361**	(7,357,788)	**27,596**
Net increase /(decrease) in cash and cash equivalents	**7,283,305**	(18,839,571)	**1,982,931**
Cash and cash equivalents at the beginning of the year	**15,811,548**	34,651,119	**4,304,805**
Cash and cash equivalents at the end of the year (Note 35)	**23,094,853**	15,811,548	**6,287,736**

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

1. Activities and areas of operations

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). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of forty nine branches, two branches in India, one offshore branch in Jersey, its subsidiaries and two representative offices located in London and Singapore.

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.

The Bank has amended its Articles of Association to ensure its compliance with the provisions of the UAE Federal Law No. 2 of 2015, which came into effect on July 1, 2015.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these consolidated financial statements.

The Group applied for the first time, IFRS 9 Financial Instruments that is required to be applied retrospectively with adjustments to be made in the opening balance of equity. As required by IAS 1 Presentation of Financial Statements, the nature and effect of these changes are disclosed in Note 3.6 of the consolidated financial statements.

In the current year, the Group has also applied the following new accounting standards and 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, 2018. The application of these new accounting standards and 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.

- IFRS 15 Revenue from Contracts with Customers
- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards deleting short-term exemptions for first-time adopters
- Amendments to IFRS 2 Share-based Payment clarifying the classification and measurement of share-based payment transactions
- Amendments to IFRS 7 Financial Instruments: Disclosures about the initial application of IFRS 9
- Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
- Amendments to IAS 40 Investment Property clarifying transfers of property to, or from, investment property
- Annual Improvements to IFRSs 2014–2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 28 Investments in Associates and Joint Ventures providing clarification on measuring investees at fair value through profit or loss is an investment-by-investment choice

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, 2018.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early adopted any 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
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The Amendments clarify that: • on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and • the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
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
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 IFRSs and amendments will be adopted in the initial period when they become mandatorily effective and will have no material impact on the consolidated financial statements of the Group.

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).

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

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank PJSC and its subsidiaries (collectively referred to as the "Group").

SUBSIDIARIES

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. 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 a company 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. Information about the Funds managed by the Bank is set out in Note 49.

INVESTMENT IN ASSOCIATE

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 is not control or joint control over those policies.

Investment 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 include the Group's share of the profit or loss and other comprehensive income of investment in associate, 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 associate, 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.

3.6 CHANGES IN ACCOUNTING POLICIES

The Group has adopted IFRS 9 Financial Instruments as issued by the IASB in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised. The Group did not early adopt any of the IFRS 9 versions in previous periods.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. All adjustments to carrying amount of financial assets and financial liabilities at the date of transitions were recognised in opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

Set out below are the disclosures relating to the impact on the Group and significant accounting policies introduced on adoption of IFRS 9. For details of accounting policies of financial instruments under IAS 39, refer to Note 3.7 in the consolidated financial statements for the year ended December 31, 2017.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	Original measurement category as per IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 AED'000	Remeasurements AED'000	New carrying amount under IFRS 9 AED'000
Cash and balances with central banks, net	Amortised cost	Amortised cost	19,997,123	(282)	19,996,841
Deposits and balances due from banks, net	Amortised cost	Amortised cost	11,451,956	104,862	11,556,818
Reverse-repo placements, net	Amortised cost	Amortised cost	98,578	(81)	98,497
Trading securities	FVTPL	FVTPL	485,301	–	485,301
Investment securities (*)	AFS	FVTOCI	49,191,657	(149,349)	49,191,657
Loans and advances to customers, net	Amortised cost	Amortised cost	163,282,230	(1,107,264)	162,174,966
Other assets, net	Amortised cost	Amortised cost	14,875,838	(11,039)	14,864,799
Letters of credit, guarantees and other commitments	Amortised cost	Amortised cost	53,426,571	(347,075)	53,426,571
Total			**312,809,254**	**(1,510,228)**	**311,795,450**

(*) impairment allowance is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

RECONCILIATION OF IMPAIRMENT ALLOWANCE BALANCE FROM IAS 39 TO IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

	Impairment allowance under IAS 39 AED'000	Remeasurements AED'000	Impairment allowance under IFRS 9 AED'000
Cash and balances with central banks, net	–	282	282
Deposits and balances due from banks, net	127,246	(104,862)	22,384
Reverse-repo placements, net	–	81	81
Investment securities	56,687	149,349	206,036
Loans and advances to customers, net	5,906,744	1,107,264	7,014,008
Other assets, net	–	11,039	11,039
Letters of credit, guarantees and other commitments	–	347,075	347,075
Total	**6,090,677**	**1,510,228**	**7,600,905**

SIGNIFICANT ACCOUNTING POLICIES INTRODUCED ON ADOPTION OF IFRS 9

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 3.6(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

Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(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

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.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

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 rate).

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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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).

3.15 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).

3.16 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.

3.17 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.

3.18 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.

3.19 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.

3.20 LEASING

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.

3.21 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 3.13 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.22 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 25 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.

3.23 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.

3.24 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.

3.25 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.

3.26 BUSINESS COMBINATIONS AND GOODWILL

The purchase method of accounting is used to account for business acquisitions by the Group. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is 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 of goodwill is recognised directly in the consolidated income statement. 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 gain or loss on disposal.

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 (FVPTL) 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, 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.

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. Significant accounting judgements, estimates and assumptions

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 JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The following are the critical judgments, 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 judgment 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 13.

CONSOLIDATION OF FUNDS

The changes introduced by IFRS 10 — Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

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.

5. Cash and balances with central banks, net

	2018 AED'000	2017 AED'000
Cash on hand	**1,499,000**	2,729,930
Balances with central banks	**3,404,794**	2,779,542
Reserves maintained with central banks	**11,004,968**	10,814,651
Certificate of deposits with UAE Central Bank	**3,673,000**	3,673,000
Reverse-repo with Central Bank	**8,423**	–
Gross cash and balances with central banks	**19,590,185**	19,997,123
Less: Allowance for impairment (Note 42.3)	**(228)**	–
Total cash and balances with central banks, net	**19,589,957**	19,997,123
The geographical concentration is as follows:		
Within the UAE	**19,534,940**	19,950,521
Outside the UAE	**55,245**	46,602
	19,590,185	19,997,123
Less: Allowance for impairment (Note 42.3)	**(228)**	–
	19,589,957	19,997,123

Reserves maintained with central banks represents deposit 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

	2018 AED'000	2017 AED'000
Nostro balances	**1,913,798**	1,700,600
Margin deposits	**256,474**	18,989
Time deposits	**6,888,240**	3,808,135
Wakala placements	**3,579,525**	810,100
Loans and advances to banks	**7,023,366**	5,241,378
Gross deposits and balances due from banks	**19,661,403**	11,579,202
Less: Allowance for impairment (Note 42.3)	**(34,327)**	(127,246)
Total deposits and balances due from banks, net	**19,627,076**	11,451,956
The geographical concentration is as follows:		
Within the UAE	**8,730,693**	3,285,682
Outside the UAE	**10,930,710**	8,293,520
	19,661,403	11,579,202
Less: Allowance for impairment (Note 42.3)	**(34,327)**	(127,246)
	19,627,076	11,451,956

The Group hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net fair value of these swaps was AED Nil as at December 31, 2018 (December 31, 2017 — net negative fair value of AED 4,708 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to banks were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	As at December 31, 2018		As at December 31, 2017	
	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	–	–	412,711	269,677

7. Reverse-repo placements

	2018 AED'000	2017 AED'000
Banks and financial institutions	**2,203,800**	98,578
The geographical concentration is as follows:		
Within the UAE	**2,020,150**	48,443
Outside the UAE	**183,650**	50,135
	2,203,800	98,578

The Group enters into reverse repurchase agreements under which bonds with fair value of AED 2,271,007 thousand (December 31, 2017 — bonds with fair value of AED 99,832 thousand) and cash collateral of AED Nil (December 31, 2017 — AED 275 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. Trading securities

	2018 AED'000	2017 AED'000
Bonds	**60,134**	485,301
The geographical concentration is as follows:		
Within the UAE	–	177,175
Outside the UAE	**60,134**	308,126
	60,134	485,301

Bonds represent investments mainly in banks and public sector. The fair value of trading securities is based on quoted market prices.

9. Derivative financial instruments

In the ordinary course of business the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

(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, 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**
As at December 31, 2017			
Derivatives held or issued for trading			
Foreign exchange derivatives	484,546	379,890	160,934,849
Interest rate and cross currency swaps	2,225,651	2,313,951	218,983,622
Interest rate and commodity options	314,164	333,158	35,840,619
Forward rate agreements	159	163	1,979,419
Futures (exchange traded)	1,670	1,267	22,360,899
Commodity and energy swaps	256,134	248,041	4,060,914
Swaptions	129,968	94,311	16,704,214
Total derivatives held or issued for trading	3,412,292	3,370,781	460,864,536
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	287,165	621,855	57,337,746
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	8,753	217,367	6,492,894
Forward foreign exchange contracts	112,154	24,478	15,908,953
Total derivatives held as cash flow hedges	120,907	241,845	22,401,847
Total derivative financial instruments	3,820,364	4,234,481	540,604,129

The notional amounts indicate the volume of outstanding contracts and are neither indicative of the market risk nor credit risk. Refer to Note 46 for market risk measurement and management.

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

	2018 AED'000	2017 AED'000
Gains/(losses) on the hedged items attributable to risk hedged	**978,821**	(265,700)
(Losses)/gains on the hedging instruments	**(962,809)**	286,444
Fair value hedging ineffectiveness	**16,012**	20,744
Cash flow hedging ineffectiveness	**–**	(24)
Net hedge ineffectiveness gains	**16,012**	20,720

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	Above 5 years AED'000	Total AED'000
2018	**(19,388)**	**(16,314)**	**3,001**	**(8,860)**	**–**	**(41,561)**
2017	(352)	90,326	29,292	(51,991)	(399)	66,876

As at December 31, 2018, the Group received cash collateral of AED 207,554 thousand (December 31, 2017 — AED 340,556 thousand) and bonds with fair value of AED 26,847 thousand (December 31, 2017 — AED 40,239 thousand) against positive fair value of derivative assets.

As at December 31, 2018, the Group placed cash collateral of AED 275,060 thousand (December 31, 2017 — AED 26,225 thousand) and bonds of AED 2,317,131 thousand (December 31, 2017 — AED 1,631,481 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 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**
As at December 31, 2017				
Quoted:				
Government securities	4,811,873	4,988,214	9,167,331	18,967,418
Bonds — Public sector	5,143,005	312,498	3,186,957	8,642,460
Bonds — Banks and financial institutions	4,150,039	933,557	4,198,707	9,282,303
Bonds — Corporate	544,191	88,869	259,062	892,122
Equity instruments	490	–	–	490
Mutual funds	77,541	–	85,802	163,343
Total quoted	14,727,139	6,323,138	16,897,859	37,948,136
Unquoted:				
Government securities	10,910,384	–	–	10,910,384
Equity instruments	319,502	–	13,635	333,137
Total unquoted	11,229,886	–	13,635	11,243,521
Total investment securities	25,957,025	6,323,138	16,911,494	49,191,657

(*) Gulf Cooperation Council

As at December 31, 2018, the allowance for impairment on debt instruments designated at FVTOCI amounting to 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, 2018 was AED 85,541 thousand (December 31, 2017 — net negative fair value AED 314,720 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, 2018		As at December 31, 2017	
	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	**240,856**	**228,653**	323,660	301,180

Further, the Group pledged investment securities with fair value amounting to AED 2,333,615 thousand (December 31, 2017 — AED 1,305,506 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	2018 AED'000	2017 AED'000
Overdrafts (retail and corporate)	**5,091,419**	4,420,471
Retail loans	**26,296,282**	30,006,710
Corporate loans	**131,833,632**	125,438,313
Credit cards	**4,461,828**	4,367,578
Other facilities	**5,469,473**	4,955,902
Gross loans and advances to customers	**173,152,634**	169,188,974
Less: Allowance for impairment (Note 42.3)	**(6,726,872)**	(5,906,744)
Total loans and advances to customers, net	**166,425,762**	163,282,230

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 negative fair value of these swaps at December 31, 2018 was AED 60,106 thousand (December 31, 2017 — net negative fair value of AED 49,785 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to customers were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	As at December 31, 2018		As at December 31, 2017	
	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	–	–	30,618	22,848

Further, the Group entered into a security lending and borrowing arrangement, under which loans and advances to customers with nominal value of AED Nil (December 31, 2017 — AED 766,629 thousand) were lent against high quality bonds with nominal value of AED Nil (December 31, 2017 — AED 554,630 thousand). The risks and rewards relating to loans lent and bonds borrowed remains with respective counterparties. The arrangement is governed under the terms and conditions of Global Master Securities Lending Agreement (GMSLA).

12. Investment in associate

Investment in associate represents the Bank's interest in an associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity.

The investment in associate 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.

Details of the investment in associate as at December 31, 2018 and 2017 are as follows:

Name of associate	Ownership interest	Country of incorporation	Principal activities
Four N Property LLC	35%	UAE	Residential facilities for lower income group

For balances and transactions with associate, refer Note 36.

13. Investment properties

	AED'000
As at January 1, 2017	659,776
Additions during the year	9,177
Revaluation of investment properties	(34,173)
As at January 1, 2018	**634,780**
Disposal during the year	**(1,900)**
Revaluation of investment properties	**(56,209)**
As at December 31, 2018	**576,671**

For the year 2018, losses from investment properties includes loss of AED 250 thousand on disposal during the year (For the year 2017: AED Nil).

Additions in 2017 include AED 8,177 thousand being real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has 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 recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

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 located within the UAE.

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

	2018 AED'000	2017 AED'000
Rental income	**41,328**	46,250
Direct operating expenses	**8,079**	8,568

14. Other assets, net

	2018 AED'000	2017 AED'000
Interest receivable	**2,229,084**	1,867,461
Advance tax	**5,597**	7,129
Prepayments	**78,314**	76,196
Acceptances (Note 20)	**10,531,047**	12,593,697
Intangible asset — Goodwill	**18,800**	18,800
Others	**501,081**	312,555
Gross other assets	**13,363,923**	14,875,838
Less: Allowance for impairment (Note 42.3)	**(14,229)**	–
Total other assets, net	**13,349,694**	14,875,838

15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
As at January 1, 2017	884,325	175,731	200,663	801,480	158,665	2,220,864
Exchange difference	194	(1)	136	299	64	692
Additions during the year	–	1,884	2,562	5,844	193,877	204,167
Transfers	2,709	14,017	12,133	241,139	(269,998)	–
Transfer to expenses	–	–	–	–	(5,755)	(5,755)
Disposals during the year	(14,446)	(211)	(2,197)	(1,546)	–	(18,400)
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 December 31, 2018	**889,322**	**207,809**	**225,392**	**1,196,599**	**79,606**	**2,598,728**
Accumulated depreciation						
As at January 1, 2017	377,300	132,911	162,933	621,035	–	1,294,179
Exchange difference	58	2	54	269	–	383
Charge for the year	38,603	13,275	13,433	99,803	–	165,114
Disposals during the year	(14,446)	(114)	(2,103)	(1,541)	–	(18,204)
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	**36,626**	**12,135**	**14,107**	**113,059**	**–**	**175,927**
Disposals during the year	**–**	**(11)**	**(594)**	**(68)**	**–**	**(673)**
As at December 31, 2018	**438,055**	**158,196**	**187,696**	**832,176**	**–**	**1,616,123**
Carrying amount						
As at December 31, 2018	**451,267**	**49,613**	**37,696**	**364,423**	**79,606**	**982,605**
As at December 31, 2017	471,267	45,346	38,980	327,650	76,853	960,096

16. Due to banks

	2018 AED'000	2017 AED'000
Vostro balances	**870,881**	822,121
Margin deposits	**200,090**	327,814
Time deposits	**2,000,437**	4,027,194
Total due to banks	**3,071,408**	5,177,129

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 negative fair value of these swaps at December 31, 2018 was AED 3,008 thousand (December 31, 2017 — net positive fair value of AED 2 thousand).

17. Deposits from customers

	2018 AED'000	2017 AED'000
Time deposits	**95,078,854**	80,765,754
Current account deposits	**54,855,845**	55,741,567
Savings deposits	**13,534,209**	13,758,208
Murabaha deposits	**11,549,497**	11,190,454
Long term government deposits	**377,014**	397,282
Margin deposits	**1,258,438**	1,225,121
Total deposits from customers	**176,653,857**	163,078,386

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 negative fair value of these swaps at December 31, 2018 was AED 40,044 thousand (December 31, 2017 — net positive fair value of AED 38,976 thousand).

18. Euro commercial paper

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

	2018 AED'000	2017 AED'000
Currency		
US dollar (USD)	**2,338,833**	1,159,843
Euro (EUR)	**715,882**	1,279,166
GB pound (GBP)	**224,587**	470,836
Total euro commercial paper	**3,279,302**	2,909,845

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 negative fair value of these hedge contracts as at December 31, 2018 was AED 34,895 thousand (December 31, 2017 — net positive fair value of AED 71,418 thousand).

The effective interest rate on ECPs issued ranges between negative 0.164% p.a. to positive 3.23% p.a. (December 31, 2017 — between negative 0.35% p.a. to positive 2.11% p.a.).

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

	AED'000
As at January 1, 2017	8,728,533
Net proceeds from issuances	9,304,817
Repayments	(15,188,146)
Other movements	64,641
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 December 31, 2018	**3,279,302**

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, 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
		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.

The details of borrowings as at December 31, 2017 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)	–	726,523	887,069	427,269	2,040,861
	Chinese renminbi (CNH)	–	393,335	–	–	393,335
	Euro (EUR)	–	229,550	–	87,677	317,227
	Swiss franc (CHF)	–	–	301,908	–	301,908
	Japanese yen (JPY)	–	48,973	–	–	48,973
	Hong Kong dollar (HKD)	–	149,837	225,346	178,076	553,259
	US dollar (USD)	2,753,878	8,503,789	146,833	8,968,534	20,373,034
		2,753,878	10,052,007	1,561,156	9,661,556	24,028,597
Bilateral loans — floating rate	US dollar (USD)	1,285,550	2,746,000	–	–	4,031,550
Syndicated loan — floating rate	US dollar (USD)	734,081	2,932,211	–	–	3,666,292
Certificate of deposits issued	Indian rupee (INR)	283,304	–	–	–	283,304
	US dollar (USD)	1,852,189	1,934,096	–	–	3,786,285
Subordinated notes — fixed rate	US dollar (USD)	–	–	–	3,786,625	3,786,625
	Swiss franc (CHF)	–	–	–	378,837	378,837
Borrowings through repurchase agreements	US dollar (USD)	305,030	–	–	202,333	507,363
	Indian rupee (INR)	86,342	–	–	–	86,342
		7,300,374	17,664,314	1,561,156	14,029,351	40,555,195

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, 2017 was AED 196,811 thousand.

Interests are payable in arrears and the contractual coupon rates as at December 31, 2018 are as follows:

Instrument	CCY	Within 1 year	1–3 years	3–5 years	Over 5 years
Global medium term notes	AUD	Fixed rate of 4.75% p.a.	Fixed rate of 3.73% p.a.	Fixed rate between 3.75% p.a. to 3.92% p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	Fixed rate of 4.50% p.a.
	CNH	Fixed rate between 3.85% p.a. to 4.50% p.a.	Fixed rate between 4.85% p.a. to 5.02% p.a.	Fixed rate of 4.82% p.a.	–
	EUR	Quarterly coupons of 46 basis points over Euribor	Quarterly coupons between 50 to 59 basis points over Euribor	–	Fixed rate of 0.75% p.a.
	CHF	–	–	Fixed rate of 0.385% p.a.	Fixed rate of 0.735% p.a.
	JPY	Fixed rate of 0.68% p.a.	Fixed rate of 0.45% p.a.	–	–
	HKD	–	Fixed rate between 2.30% p.a. to 2.86% p.a.	Fixed rate between 2.84% p.a. to 3.20% p.a.	Fixed rate of 2.87% p.a.
	USD	Fixed rate between 2.75% p.a. to 3.00% p.a. and quarterly coupons between 50 to 61 basis points over Libor	Fixed rate of 2.625% p.a. and quarterly coupons between 63 to 90 basis points over Libor	Fixed rate of 4.00% p.a. and quarterly coupons between 88 to 115 basis points over Libor	Fixed rate between 4.30% p.a. to 5.765% p.a. and quarterly coupons of 140 basis points over Libor (*)
Bilateral loans — floating rate	USD	–	Monthly coupons between 60 to 85 basis points over Libor and quarterly coupons with 60 basis points over Libor	Monthly coupons of 95 basis points over Libor	–
Syndicated loan — floating rate	USD	Quarterly coupons of 95 basis points over Libor	Monthly coupons of 73 basis points over Libor	–	–
Certificate of deposits issued	INR	Fixed rate between 7.30% p.a. to 7.90% p.a.	–	–	–
	USD	Quarterly coupons with 114 basis points over Libor	Fixed rate between 2.41 % p.a. to 2.48 % p.a.	–	–
Subordinated notes — fixed rate	USD	–	–	Fixed rate of 4.50% p.a.	–
Borrowings through repurchase agreements	USD	–	–	–	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	INR	Fixed rate of 6.59 % p.a.	–	–	–

(*) includes AED 10,749,924 thousand 30 year accreting notes with yield ranging between 4.30% p.a. to 5.765% 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 51).

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

	AED'000
As at January 1, 2017	38,015,030
Net proceeds from issuances	19,789,726
Repayments	(18,284,459)
Other movements	1,034,898
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 December 31, 2018	**43,027,749**

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 fair value hedges.

20. Other liabilities

	2018 AED'000	2017 AED'000
Interest payable	**1,409,503**	1,015,277
Recognised liability for defined benefit obligation	**487,995**	453,866
Accounts payable and other creditors	**215,558**	249,627
Deferred income	**672,303**	631,168
Acceptances (Note 14)	**10,531,047**	12,593,697
Impairment allowance on letters of credit, guarantees and other commitments (Note 42.3)	**349,752**	–
Others (*)	**1,630,410**	1,659,684
Total other liabilities	**15,296,568**	16,603,319

(*) includes AED Nil against trading securities short sold which are carried at FVTPL (December 31, 2017: AED 77,075 thousand).

DEFINED BENEFIT OBLIGATION

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2018 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:	4.00% 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 13,640 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 12,886 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 13,319 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 12,699 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2018 AED'000	2017 AED'000
Opening balance	**453,866**	421,275
Net charge during the year(*)	**80,097**	56,029
Actuarial gains on defined benefit obligation	**(13,157)**	(2,022)
Benefits paid	**(32,811)**	(21,416)
Closing balance	**487,995**	453,866

(*) 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 35,404 thousand (2017 — AED 32,769 thousand). As at December 31, 2018, pension payable of AED 4,073 thousand has been classified under 'other liabilities — others' (December 31, 2017 — AED 3,764 thousand).

21. Share capital

		Issued and fully paid	
	Authorised AED'000	2018 AED'000	2017 AED'000
Ordinary shares of AED 1 each	**10,000,000**	**5,198,231**	5,198,231

In 2017, the Bank's Articles of Association were amended and as per the new articles, the authorised share capital of the Bank has been increased to AED 10,000,000 thousand comprising of 10,000,000 thousand shares having a nominal value of AED 1 per share.

As at December 31, 2018, Abu Dhabi Investment Council held 62.523% (December 31, 2017 — 62.523%) of the Bank's issued and fully paid up share capital.

DIVIDENDS

For the year ended December 31, 2018, the Board of Directors has proposed to pay a cash dividend of AED 2,391,186 thousand, being AED 0.46 dividend per share and representing 46% of the paid up capital (December 31, 2017 — AED 2,183,257 thousand, being AED 0.42 dividend per share and representing 42% 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, 2018:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000
As at January 1, 2018 (as previously reported)	**(64,914)**	**2,797,799**
Effect of change in accounting policy for IFRS 9 (Note 3.6)	–	–
As at January 1, 2018 (restated)	**(64,914)**	**2,797,799**
Exchange difference arising on translation of foreign operations	–	–
Net fair value changes on cash flow hedges	–	–
Net fair value changes on cash flow hedges reclassified to consolidated income statement	–	–
Net fair value changes of debt instruments designated at FVTOCI	–	–
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (**)	–	–
Net fair value changes of equity instruments designated at FVTOCI	–	–
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	–	–
Total other comprehensive (loss)/gain for the year	–	–
Fair value adjustments	**66**	–
Shares — vested portion (Note 24)	**23,090**	–
As at December 31, 2018	**(41,758)**	**2,797,799**
As at January 1, 2017	(100,059)	2,797,799
Exchange difference arising on translation of foreign operations	–	–
Net fair value changes on cash flow hedges	–	–
Net fair value changes reclassified to consolidated income statement	–	–
Net fair value changes on available-for-sale investments	–	–
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	–	–
Total other comprehensive gain/(loss) for the year	–	–
Fair value adjustments	(1,939)	–
Shares — vested portion (Note 24)	37,084	–
As at December 31, 2017	(64,914)	2,797,799

(*) termed as cumulative changes in fair value in prior year.
(**) includes allowance for impairment.

For more information on reserves refer Note 51.

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	Total AED'000
2,797,799	**2,000,000**	**150,000**	**(65,195)**	**(190,370)**	**59,808**	**7,484,927**
–	**–**	**–**	**–**	**–**	**149,349**	**149,349**
2,797,799	**2,000,000**	**150,000**	**(65,195)**	**(190,370)**	**209,157**	**7,634,276**
–	**–**	**–**	**(21,054)**	**–**	**–**	**(21,054)**
–	**–**	**–**	**–**	**(91,613)**	**–**	**(91,613)**
–	**–**	**–**	**–**	**133,205**	**–**	**133,205**
–	**–**	**–**	**–**	**–**	**(713,879)**	**(713,879)**
–	**–**	**–**	**–**	**–**	**(12,127)**	**(12,127)**
–	**–**	**–**	**–**	**–**	**(91,105)**	**(91,105)**
–	**–**	**–**	**–**	**–**	**(1,588)**	**(1,588)**
–	**–**	**–**	**(21,054)**	**(41,592)**	**(818,699)**	**(798,161)**
–	**–**	**–**	**–**	**–**	**–**	**66**
–	**–**	**–**	**–**	**–**	**–**	**23,090**
2,797,799	**2,000,000**	**150,000**	**(86,249)**	**(148,778)**	**(609,542)**	**6,859,271**
2,797,799	2,000,000	150,000	(78,741)	(143,493)	13,978	7,437,283
–	–	–	13,546	–	–	13,546
–	–	–	–	320,765	–	320,765
–	–	–	–	(367,642)	–	(367,642)
–	–	–	–	–	92,545	92,545
–	–	–	–	–	(46,715)	(46,715)
–	–	–	13,546	(46,877)	45,830	12,499
–	–	–	–	–	–	(1,939)
–	–	–	–	–	–	37,084
2,797,799	2,000,000	150,000	(65,195)	(190,370)	59,808	7,484,927

23. Islamic financing

Islamic financing assets

	2018 AED'000	2017 AED'000
Murabaha	**3,633,709**	3,453,938
Ijara financing	**11,436,508**	11,452,962
Salam	**6,596,310**	7,044,886
Others	**234,908**	150,381
Gross Islamic financing assets	**21,901,435**	22,102,167
Less: Allowance for impairment	**(568,667)**	(434,002)
Net Islamic financing assets	**21,332,768**	21,668,165

Gross Ijara and related present value of the minimum Ijara payments

	2018 AED'000	2017 AED'000
Not later than one year	**2,053,800**	1,078,293
Later than one year but not later than five years	**5,446,449**	5,598,134
Later than five years	**6,981,305**	7,271,664
Gross Ijara	**14,481,554**	13,948,091
Less: Deferred income	**(3,045,046)**	(2,495,129)
Net Ijara	**11,436,508**	11,452,962
Net present value		
Not later than one year	**1,622,121**	885,400
Later than one year but not later than five years	**4,301,684**	4,596,702
Later than five years	**5,512,703**	5,970,860
Total net present value	**11,436,508**	11,452,962

Income from Islamic financing

	2018 AED'000	2017 AED'000
Murabaha	**202,823**	128,322
Ijara financing	**602,533**	465,743
Salam	**455,829**	479,055
Others	**15,561**	8,551
Total income from Islamic financing	**1,276,746**	1,081,671

Islamic deposits

	2018 AED'000	2017 AED'000
Current account deposits	**4,282,450**	4,751,338
Margin deposits	**75,248**	61,028
Mudaraba savings deposits	**6,732,645**	6,530,040
Mudaraba term deposits	**621,365**	882,892
Wakala deposits	**5,228,283**	2,498,714
Total Islamic deposits	**16,939,991**	14,724,012

Islamic profit distribution

	2018 AED'000	2017 AED'000
Mudaraba savings and term deposits	**66,960**	64,435
Wakala deposits	**102,941**	57,605
Total Islamic profit distribution	**169,901**	122,040

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 Group's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

For the year ended December 31, 2018, the Group had three incentive plans in force as described below:

Grant date	January 1, 2017	January 1, 2017	January 1, 2016
Number of shares granted	2,675,000	2,845,312	2,075,000
Fair value of the granted shares at the grant date in AED thousand	18,458	19,633	13,674
Vesting date	December 31, 2020	December 31, 2019	December 31, 2019

Vesting conditions — Three/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:

	2018	2017
Opening balance	**9,614,022**	9,067,135
Shares granted during the year	**–**	5,520,312
Exercised during the year	**(3,921,450)**	(4,724,993)
Forfeited during the year	**(508,414)**	(248,432)
Closing balance	**5,184,158**	9,614,022
Amount of "Plan" cost recognised under "staff costs" in the consolidated income statement (AED '000)	**23,090**	37,084

Total number of un-allotted shares under the Plan as at December 31, 2018 were 3,851,658 shares (December 31, 2017 — 3,343,244 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 six 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.

26. Interest income

	2018 AED'000	2017 AED'000
Loans and advances to banks	**561,889**	440,271
Loans and advances to customers	**8,096,025**	7,104,867
Investment securities	**1,657,027**	1,227,424
Total interest income	**10,314,941**	8,772,562

27. Interest expense

	2018 AED'000	2017 AED'000
Deposits from banks	**87,526**	46,810
Deposits from customers	**2,700,853**	2,002,789
Euro commercial paper	**83,865**	104,671
Borrowings	**1,330,418**	876,865
Total interest expense	**4,202,662**	3,031,135

28. Net fees and commission income

	2018 AED'000	2017 AED'000
Fees and commission income		
Card related fees	**894,266**	864,153
Loan processing fees	**486,261**	583,274
Accounts related fees	**65,363**	55,601
Trade finance commission	**281,245**	263,645
Insurance commission	**61,610**	72,605
Asset management and investment services	**83,342**	109,600
Brokerage fees	**6,449**	15,796
Other fees	**211,592**	106,572
Total fees and commission income	**2,090,128**	2,071,246
Fees and commission expense	**(695,552)**	(564,204)
Net fees and commission income	**1,394,576**	1,507,042

29. Net trading income

	2018 AED'000	2017 AED'000
Net gains from dealing in derivatives	**39,275**	12,102
Net gains from dealing in foreign currencies	**381,478**	349,660
Net gains /(losses) from trading securities	**11,052**	(7,785)
Net trading income	**431,805**	353,977

30. Other operating income

	2018 AED'000	2017 AED'000
Property management income	**133,850**	152,170
Rental income	**51,076**	57,444
Dividend income	**1,722**	1,850
Net (losses)/gains from disposal of investment securities	**(10,474)**	46,715
Gains/(losses) arising from retirement of hedges	**278**	(4,454)
Others	**15,947**	113,695
Total other operating income	**192,399**	367,420

31. Operating expenses

	2018 AED'000	2017 AED'000
Staff expenses	**1,838,475**	1,709,057
Depreciation (Note 15)	**175,927**	165,114
General administrative expenses	**1,069,099**	1,073,410
Total operating expenses	**3,083,501**	2,947,581

32. Impairment allowances

	2018 AED'000	2017 AED'000
Financial instruments carried at amortised cost		
Charge during the year	**1,503,800**	1,932,526
Recoveries during the year	**(218,089)**	(258,906)
Financial instruments carried at amortised cost — net charge	**1,285,711**	1,673,620
Debt instruments designated at FVTOCI — net release	**(22,601)**	–
Commitments and contingent liabilities — net charge	**2,677**	–
Total impairment allowances (Note 42.3)	**1,265,787**	1,673,620

33. Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net 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.

	2018 AED'000	2017 AED'000
Net profit for the year attributable to the equity holders of the Bank	**4,839,854**	4,277,608
Less: Coupon paid on capital notes (Note 25)	**(174,789)**	(155,866)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**4,665,065**	4,121,742
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**5,198,231**	5,198,231
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(12,470)**	(16,607)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**5,185,761**	5,181,624
Add: Weighted average number of shares resulting from employees' incentive plan shares	**12,470**	16,607
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**5,198,231**	5,198,231
Basic earnings per share (AED) (a)/(b)	**0.90**	0.80
Diluted earnings per share (AED) (a)/(c)	**0.90**	0.79

34. Operating lease

GROUP AS LESSEE

Operating leases relates to leases of branch premises, offices and ATMs of the Group with lease terms mainly up to three years. The Group has the option to renew the lease agreements but not the option to purchase the leased premises at the expiry of the lease periods.

	2018 AED'000	2017 AED'000
Payments recognised as an expense		
Minimum lease payments	**89,550**	85,855
Non-cancellable operating lease commitments		
Not later than one year	**42,368**	46,412
Later than one year but not later than five years	**81,495**	91,703
Later than five years	**28,307**	36,053
Total non-cancellable operating lease commitments	**152,170**	174,168

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.

Rental incomes earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

	2018 AED'000	2017 AED'000
Non-cancellable operating lease receivables		
Not later than one year	**23,789**	26,733
Later than one year but not later than five years	**25,342**	30,229
Later than five years	**27,463**	36,229
Total non-cancellable operating lease receivables	**76,594**	93,191

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:

	2018 AED'000	2017 AED'000
Cash and balances with central banks	**19,590,185**	19,997,123
Deposits and balances due from banks (excluding loans and advances to banks)	**12,638,037**	6,337,824
Reverse-repo placements	**2,203,800**	98,578
Due to banks	**(3,071,408)**	(5,177,129)
	31,360,614	21,256,396
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	**(9,935,092)**	(6,641,189)
Add: Due to banks — with original maturity of more than three months	**1,669,331**	1,196,341
Total cash and cash equivalents	**23,094,853**	15,811,548

36. Related party transactions

The Group enters into transactions with the parent and its related entities, associate, 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 62.523% (December 31, 2017 — 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. During the year, the Group has identified new related parties owing to change in the ownership structure of the Bank's parent company.

Related party balances and transactions included in the consolidated statement of financial position and consolidated income statement, respectively, are as follows:

2018	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
Balances:					
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:					
Interest, 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
Coupon paid on Capital notes	174,789	–	–	–	174,789

2017	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
Balances:					
Deposits and balances due from banks	1,071,407	–	–	–	1,071,407
Reverse-repo placements	48,443	–	–	–	48,443
Trading securities	53,113	–	–	–	53,113
Derivative financial instruments — assets	1,169,555	–	–	–	1,169,555
Investment securities	17,225,691	–	–	163,343	17,389,034
Loans and advances to customers	21,373,743	208,409	30,661	266,562	21,879,375
Other assets	165,685	3,698	9	3,472	172,864
Due to banks	116,516	–	–	–	116,516
Derivative financial instruments — liabilities	375,215	–	–	–	375,215
Deposits from customers	38,745,988	248,796	40,694	61,551	39,097,029
Other liabilities	181,805	2,592	12,017	520	196,934
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	1,842,273	150,802	2,260	29,266	2,024,601
Transactions:					
Interest, Islamic financing income, fees and other income	1,396,374	10,875	1,123	42,690	1,451,062
Interest expense and Islamic profit distribution	631,852	1,036	665	1	633,554
Derivative income	180,271	–	–	–	180,271
Share in profit of associate	–	–	–	9,845	9,845
Coupon paid on Capital notes	155,866	–	–	–	155,866

As at December 31, 2018, Funds under management held 2,328,534 shares (December 31, 2017: 4,232,646 shares) of the Bank. During the year, the Bank paid dividend of AED 1,778 thousand (2017: AED 2,279 thousand) to these Funds.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2018 AED'000	2017 AED'000
Short term benefits	**28,795**	26,539
Post-employment benefits	**4,299**	2,260
Variable pay benefits	**26,035**	23,475
	59,129	52,274
Board of Directors fees and expenses	**9,765**	10,001

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 20,315 thousand (2017 — AED 20,725 thousand).

37. Commitments and contingent liabilities

The Group had the following commitments and contingent liabilities as at December 31:

	2018 AED'000	2017 AED'000
Letters of credit	**5,322,188**	3,869,821
Guarantees	**28,673,986**	25,214,764
Commitments to extend credit — revocable (*)	**11,244,578**	12,024,786
Commitments to extend credit — irrevocable	**14,528,686**	11,877,423
Total commitments on behalf of customers	**59,769,438**	52,986,794
Commitments for future capital expenditure	**461,668**	380,094
Commitments to invest in investment securities	**51,995**	59,683
Total commitments and contingent liabilities	**60,283,101**	53,426,571

(*) includes AED 6,752,159 thousand (December 31, 2017: AED 6,805,627 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 associate. 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, Indian operations, 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 liquidity 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 — Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC and rental income of ADCB.

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 segment for the year:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
2018					
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)**
Net 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					
Segment assets	**72,988,378**	**115,918,590**	**90,368,977**	**554,393**	**279,830,338**
Segment liabilities	**53,779,990**	**88,893,849**	**104,261,700**	**89,256**	**247,024,795**
2017					
Net interest income	2,626,237	1,732,196	1,294,052	88,942	5,741,427
Net income from Islamic financing	481,956	238,017	234,366	5,292	959,631
Total net interest and Islamic financing income	3,108,193	1,970,213	1,528,418	94,234	6,701,058
Non-interest income	973,237	765,445	250,073	205,511	2,194,266
Operating expenses	(1,838,997)	(777,348)	(209,550)	(121,686)	(2,947,581)
Operating profit before impairment allowances	2,242,433	1,958,310	1,568,941	178,059	5,947,743
Impairment allowances	(1,182,838)	(487,525)	–	(3,257)	(1,673,620)
Operating profit after impairment allowances	1,059,595	1,470,785	1,568,941	174,802	4,274,123
Share in profit of associate	9,845	–	–	–	9,845
Profit before taxation	1,069,440	1,470,785	1,568,941	174,802	4,283,968
Overseas income tax expense	–	(6,360)	–	–	(6,360)
Net profit for the year	1,069,440	1,464,425	1,568,941	174,802	4,277,608
Capital expenditure					199,721
As at December 31, 2017					
Segment assets	76,824,996	110,022,054	77,549,185	607,060	265,003,295
Segment liabilities	52,560,262	83,237,479	96,711,511	49,103	232,558,355

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	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Consumer banking	**5,150,822**	5,069,944	**(1,232,770)**	(988,514)
Wholesale banking	**4,243,633**	3,667,982	**(1,238,654)**	(932,324)
Investments and treasury	**(326,768)**	(21,633)	**2,362,778**	1,800,124
Property management	**113,758**	179,031	**108,646**	120,714
Total operating income	**9,181,445**	8,895,324	**–**	–

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 India, Jersey and through its subsidiaries outside UAE. The information regarding Group's revenue and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Income				
Net interest and Islamic financing income	**7,229,494**	6,703,609	**(10,370)**	(2,551)
Non-interest income	**1,954,487**	2,176,550	**7,834**	17,716
Non-current assets				
Investment in associate	**205,158**	205,372	**–**	–
Investment properties	**576,671**	634,780	**–**	–
Property and equipment, net	**977,778**	954,697	**4,827**	5,399
Intangible assets	**18,800**	18,800	**–**	–

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, 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**

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39 as at December 31, 2017.

	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
Assets					
Cash and balances with central banks	–	–	–	19,997,123	19,997,123
Deposits and balances due from banks, net	–	–	–	11,451,956	11,451,956
Reverse-repo placements	–	–	–	98,578	98,578
Trading securities	485,301	–	–	–	485,301
Derivative financial instruments	3,412,292	408,072	–	–	3,820,364
Investment securities	–	–	49,191,657	–	49,191,657
Loans and advances to customers, net	–	–	–	163,282,230	163,282,230
Other assets	–	–	–	14,780,842	14,780,842
Total financial assets	3,897,593	408,072	49,191,657	209,610,729	263,108,051
Liabilities					
Due to banks	–	–	–	5,177,129	5,177,129
Derivative financial instruments	3,370,781	863,700	–	–	4,234,481
Deposits from customers	–	–	–	163,078,386	163,078,386
Euro commercial paper	–	–	–	2,909,845	2,909,845
Borrowings	–	–	–	40,555,195	40,555,195
Other liabilities	–	–	–	15,514,521	15,514,521
Total financial liabilities	3,370,781	863,700	–	227,235,076	231,469,557

40. Fair value hierarchy

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

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.

These instruments are valued using the inputs observable in an active market. 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 13 in respect of valuation methodology used for investment properties.

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements does 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, 2018						
Assets at fair value						
Trading securities	**8**	**60,134**	**–**	**–**	**60,134**	**60,134**
Derivative financial instruments	**9**	**56**	**4,447,191**	**–**	**4,447,247**	**4,447,247**
Investment securities	**10**					
— 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	**13**	**–**	**–**	**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	**9**	**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**
As at December 31, 2017						
Assets at fair value						
Trading securities	8	485,301	–	–	485,301	485,301
Derivative financial instruments	9	1,670	3,818,694	–	3,820,364	3,820,364
Investment securities	10					
— Quoted		35,669,196	2,278,940	–	37,948,136	37,948,136
— Unquoted		–	10,910,384	333,137	11,243,521	11,243,521
Investment properties	13	–	–	634,780	634,780	634,780
Total		36,156,167	17,008,018	967,917	54,132,102	54,132,102
Liabilities at fair value						
Derivative financial instruments	9	1,267	4,233,214	–	4,234,481	4,234,481
Other liabilities	20	77,075	–	–	77,075	77,075
Liabilities at amortised cost						
Euro commercial paper	18	–	2,915,511	–	2,915,511	2,909,845
Borrowings	19	16,707,322	23,176,117	–	39,883,439	40,555,195
Total		16,785,664	30,324,842	–	47,110,506	47,776,596

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 is as follows:

	2018 AED'000	2017 AED'000
Opening balance	**333,137**	337,254
Purchases, net	**34,818**	13,991
Disposals including capital refunds	**(36,973)**	(20,004)
IFRS 9 transition adjustment (Note 3.6)	**56,687**	–
Adjustment through comprehensive income	**(135,826)**	1,896
Closing balance	**251,843**	333,137

The purchases under Level 3 category represent capital contributions made during the year into private equity and funds under existing capital commitments.

The disposals during the year mainly represent the capital refunds distributed by the private equity fund managers out of sale of underlying investments held in the funds.

Gains of AED 1,596 thousand was realised on disposal of Level 3 equity investments carried at FVTOCI during the year and were transferred to retained earnings (2017: gains of AED 3,827 thousand were recognised in consolidated income statement).

There were no transfers between Level 1 and Level 2 investments during 2018 and there is 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 Bank's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2018 was AED 149,903 thousand (December 31, 2017 — AED 163,343 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (December 31, 2017 — AED 28,365 thousand), out of which AED 428 thousand was utilised and outstanding as at December 31, 2018 (December 31, 2017 — AED 18 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 and reputational 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 independently to BRCC. 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, compliance 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 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 accounting 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 minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's 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. 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 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;
- 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 such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates, etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures.

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	Moody's	S&P	Fitch	Description	Basis for recognising ECL
1	Aaa	AAA	AAA	Investment grade	12 months ECL
2	Aa1 – Aa3	AA+ – AA-	AA+ – AA-	Investment grade	12 months ECL
3	A1 – A3	A+ – A-	A+ – A-	Investment grade	12 months ECL
4	Baa1 – Baa3	BBB+ – BBB-	BBB+ – BBB-	Investment grade	12 months ECL
5	Ba1 – Ba3	BB+ – BB-	BB+ – BB-	Non-investment grade	Lifetime ECL
6	B1 – B3	B+ – B-	B+ – B-	Non-investment grade	Lifetime ECL
7	Caa1 – Caa3	CCC – CCC-	CCC – C	Watch list	Lifetime ECL
8–10	Default	Default	Default	Default	Lifetime ECL (credit impaired)

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. 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 quality of credit risk exposure is disclosed in Note 42.2.

EXTERNAL CREDIT RISK RATINGS

The table below presents the external credit ratings as at December 31 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, 2018			As at December 31, 2017		
Ratings	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Bond securities designated at FVTOCI AED'000	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000
AAA to AA-	**1,952,206**	**2,020,150**	**15,140,638**	286,811	10,868	12,549,650
A+ to A-	**7,502,039**	**183,650**	**15,502,091**	4,629,023	70,985	10,618,728
BBB+ to BBB-	**5,145,919**	**–**	**8,115,045**	2,505,973	–	8,316,647
BB+ to B-	**4,124,512**	**–**	**3,673,283**	3,323,504	–	3,870,193
CCC+ to C-	**–**	**–**	**251,845**	–	–	324,442
UAE Sovereigns	**–**	**–**	**8,968,664**	–	–	12,719,303
Unrated	**936,727**	**–**	**308,589**	833,891	16,725	295,724
	19,661,403	**2,203,800**	**51,960,155**	11,579,202	98,578	48,694,687

UAE Sovereigns and unrated bond securities designated at FVTOCI internal ratings with comparable external ratings are as follows:

	Internal Rating	External Rating	2018 AED'000	2017 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**8,968,664**	12,719,303
Unrated	Grade 2 to 5	AA- to BB+	**308,589**	295,724
			9,277,253	13,015,027

SIGNIFICANT INCREASE IN CREDIT RISK

As explained in Note 3.6, 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 in the last 12 months
Watch list	Flagged as watch list

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
Debt instruments and money market instruments	Sub-standard, doubtful or loss flagging
Retail loans and advances and credit cards	90 dpd

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.

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 information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of 3 to 5 other possible forecast scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Group has not made any material change in the estimation techniques or significant assumptions during the reporting period. The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2018 for the years 2019 to 2022, 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 0% and 4.6%
Real Non-oil GDP Growth	% change	ADCB UAE	Between 0% and 5.1%
Abu Dhabi Real Estate Sale Prices	% change	ADCB UAE	Between -9.5% and 4.5%
Consumer inflation	% annual average	ADCB UAE	Between 0.7% and 4.8%
India industrial value added growth	% change	ADCB India	Between 5% and 10%
Inflation India	Inflation %	ADCB India	Between 3.5% and 6%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years.

MEASUREMENT OF ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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, 2018 and 2017, 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, 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	**13,349,694**	**–**	**13,246,983**	**–**	**13,246,983**
Total	**278,005,770**	**48,524,860**	**324,526,840**	**121,266,016**	**203,260,824**
As at December 31, 2017					
Cash and balances with central banks	19,997,123	–	17,267,193	–	17,267,193
Deposits and balances due from banks, net	11,451,956	–	11,451,956	–	11,451,956
Reverse-repo placements	98,578	–	98,578	98,578	–
Derivative financial instruments	3,820,364	–	3,820,364	3,004,769	815,595
Investment securities	49,191,657	–	48,694,687	–	48,694,687
Loans and advances to customers, net	163,282,230	40,962,008	204,244,238	120,500,517	83,743,721
Other assets	14,875,838	–	14,773,713	–	14,773,713
Total	262,717,746	40,962,008	300,350,729	123,603,864	176,746,865

The maximum exposure to credit risk of the investment securities (bonds) designated at FVTPL is their carrying amount, which amounts to AED 60,134 thousand at December 31, 2018 (December 31, 2017 — AED 485,301 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, 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	Total AED'000
Financial instruments carried at amortised cost				
Opening 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)
Closing balance as at December 31, 2018	204,768,887	16,374,185	5,227,162	226,370,234
Debt instruments designated at FVTOCI				
Opening 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)
Closing balance as at December 31, 2018	50,569,471	1,390,684	–	51,960,155
Commitments and contingent liabilities				
Opening 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)
Closing 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, 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 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	AED'000 Total
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 10) (*)	23,932	159,503	–	183,435
Loans and advances to customers (Note 11)	815,349	2,984,050	2,927,473	6,726,872
Other assets, net (Note 14)	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	Total AED'000
Financial instruments carried at amortised cost				
Opening 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)
Closing balance as at December 31, 2018	851,912	2,987,774	2,935,970	6,775,656
Debt instruments designated at FVTOCI				
Opening 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)
Closing balance as at December 31, 2018	23,932	159,503	–	183,435
Commitments and contingent liabilities				
Opening 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
Closing balance as at December 31, 2018	112,712	237,040	–	349,752

The movement in individual and collective impairment allowance on loans and advances as at December 31, 2017 is as follows:

	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	2,851,323	3,194,421	6,045,744
Charge/(release) for the year	1,952,033	(22,764)	1,929,269
Recoveries during the year	(258,906)	–	(258,906)
Net charge/(release) for the year	1,693,127	(22,764)	1,670,363
Discount unwind	(51,515)	–	(51,515)
Net amounts written-off	(1,631,744)	–	(1,631,744)
Currency translation	757	385	1,142
Closing balance	2,861,948	3,172,042	6,033,990

Allocation of impairment allowance on loans and advances to customers and banks is as follows:

	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Loans and advances to customers (Note 11)	2,861,948	3,044,796	5,906,744
Loans and advances to banks (Note 6)	–	127,246	127,246
Total impairment allowance on loans and advances	2,861,948	3,172,042	6,033,990

For the year 2017, the Group's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of the United Arab Emirates guidelines is as follows:

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Past due but not impaired	Between 31 and 90 days past due
Past due and impaired	Over 90 days past due

The classification of loans and advances to customers by days past due are as follows:

	2017 AED'000
Neither past due nor impaired	159,477,889
Past due but not impaired	6,019,261
Past due and impaired	3,691,824
	169,188,974
Less: Allowance for impairment	(5,906,744)
Loans and advances to customers, net	163,282,230

Analysis of the age of past due but not impaired loans are as follows:

	2017 AED'000
31–60 days	4,182,482
More than 60 days	1,836,779
Total past due but not impaired loans	6,019,261

Exposure to credit risk by internal risk grades are as follows:

	2017 AED'000
Grades 1 to 4	65,577,379
Grades 5 to 6	50,572,143
Grade 7	8,392,423
Unrated — including retail loans	34,935,944
	159,477,889

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, 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**
As at December 31, 2017								
Assets								
Balances with central banks	17,221,052	–	–	46,141	–	–	–	17,267,193
Deposits and balances due from banks, net	3,270,999	1,132,077	207,249	2,721,914	2,809,119	71,102	1,239,496	11,451,956
Reverse-repo placements	48,443	–	–	16,725	33,410	–	–	98,578
Derivative financial instruments	1,821,819	13,857	–	7,104	1,869,295	–	108,289	3,820,364
Investment securities — bonds	25,559,492	6,323,138	322,659	8,406,907	3,123,326	4,108,612	850,553	48,694,687
Loans and advances to customers, net	153,398,807	4,237,042	883,704	2,753,692	291,857	–	1,717,128	163,282,230
Other assets	4,331,604	502,020	9,671	2,078,799	2,821,140	4,770,993	259,486	14,773,713
Total	205,652,216	12,208,134	1,423,283	16,031,282	10,948,147	8,950,707	4,174,952	259,388,721
Commitment and contingent liabilities	34,754,686	2,323,520	57,357	1,534,007	1,972,662	182,432	137,344	40,962,008

(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, 2018			As at December 31, 2017		
	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	**206,858**	**–**	**206,858**	209,241	–	209,241
Energy	**984,371**	**635,136**	**1,619,507**	1,292,858	454,944	1,747,802
Trading	**5,159,486**	**749,157**	**5,908,643**	5,115,397	1,036,909	6,152,306
Real estate investment & hospitality	**65,717,702**	**1,794,972**	**67,512,674**	59,886,952	1,524,985	61,411,937
Transport	**1,419,435**	**1,041,719**	**2,461,154**	1,815,749	1,153,523	2,969,272
Personal	**36,582,222**	**111,637**	**36,693,859**	39,722,120	178,963	39,901,083
Government & public sector entities	**35,260,180**	**88,955**	**35,349,135**	34,362,873	255,388	34,618,261
Financial institutions (*)	**11,055,743**	**3,379,204**	**14,434,947**	10,468,012	3,576,142	14,044,154
Manufacturing	**2,681,505**	**2,143,409**	**4,824,914**	2,310,086	2,028,034	4,338,120
Services	**3,141,602**	**284,631**	**3,426,233**	2,810,682	263,441	3,074,123
Others	**662,963**	**51,747**	**714,710**	670,918	51,757	722,675
	162,872,067	**10,280,567**	**173,152,634**	158,664,888	10,524,086	169,188,974
Less: Allowance for impairment			**(6,726,872)**			(5,906,744)
Total loans and advances to customers, net			**166,425,762**			163,282,230

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 36.58% of the gross loans and advances to customers (December 31, 2017 — 34.85%).

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, 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**
As at December 31, 2017						
Assets						
Balances with central banks	–	–	–	17,267,193	–	17,267,193
Deposits and balances due from banks, net	–	–	–	–	11,451,956	11,451,956
Reverse-repo placements	–	–	–	–	98,578	98,578
Derivative financial instruments	1,034,626	121,930	355,833	14,602	2,293,373	3,820,364
Investment securities — bonds	892,122	–	8,642,460	29,877,802	9,282,303	48,694,687
Other assets	8,983,358	330,248	109,477	183,803	5,166,827	14,773,713
Total	10,910,106	452,178	9,107,770	47,343,400	28,293,037	96,106,491
Commitment and contingent liabilities	26,955,350	2,320,455	4,240,746	1,375,117	6,070,340	40,962,008

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, 2018 was AED 178,273,983 thousand (December 31, 2017 — AED 183,993,759 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:

	2018 AED'000	2017 AED'000
Internal risk grades		
Grades 1 to 4	**3,639,422**	3,691,202
Grades 5 to 6	**776,407**	126,008
Grade 7	**–**	53
Unrated	**31,418**	3,101
	4,447,247	3,820,364

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. 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 interest rate gaps 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 like 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 financial assets and financial 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, 2018 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	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	–	–	–	–	13,331,109	13,349,694
Property and equipment, net	–	–	–	–	–	982,605	982,605
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.

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2017 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	3,673,000	–	–	–	–	16,324,123	19,997,123
Deposits and balances due from banks, net	7,744,376	1,784,126	350,100	–	–	1,573,354	11,451,956
Reverse-repo placements	98,578	–	–	–	–	–	98,578
Trading securities	485,301	–	–	–	–	–	485,301
Derivative financial instruments	2,961,434	1,473	2,953	–	–	854,504	3,820,364
Investment securities	20,035,832	837,256	1,651,808	8,368,946	17,800,845	496,970	49,191,657
Loans and advances to customers, net	101,861,079	26,373,213	1,092,483	11,503,929	29,134,733	(6,683,207)	163,282,230
Investment in associate	–	–	–	–	–	205,372	205,372
Investment properties	–	–	–	–	–	634,780	634,780
Other assets	7,236	–	–	–	–	14,868,602	14,875,838
Property and equipment, net	–	–	–	–	–	960,096	960,096
Total assets	136,866,836	28,996,068	3,097,344	19,872,875	46,935,578	29,234,594	265,003,295
Liabilities and equity							
Due to banks	3,675,040	457,433	222,535	–	–	822,121	5,177,129
Derivative financial instruments	3,496,786	83,875	145	–	–	653,675	4,234,481
Deposits from customers	76,036,337	15,624,421	22,213,152	6,962,243	135,077	42,107,156	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	–	–	–	2,909,845
Borrowings	16,282,111	286,410	28,575	9,146,431	14,811,668	–	40,555,195
Other liabilities	77,823	–	–	–	–	16,525,496	16,603,319
Equity	–	–	–	–	–	32,444,940	32,444,940
Total liabilities and equity	100,595,311	17,267,268	23,531,909	16,108,674	14,946,745	92,553,388	265,003,295
On-balance sheet gap	36,271,525	11,728,800	(20,434,565)	3,764,201	31,988,833	(63,318,794)	–
Off-balance sheet gap	(16,530,741)	1,824,346	(572,813)	7,257,444	8,021,764	–	–
Total interest rate sensitivity gap	19,740,784	13,553,146	(21,007,378)	11,021,645	40,010,597	(63,318,794)	–
Cumulative interest rate sensitivity gap	19,740,784	33,293,930	12,286,552	23,308,197	63,318,794	–	–

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.

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 has set triggers for avoiding concentration of funding sources. 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 rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight 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, 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	19,216	13,349,694
Property and equipment, net	–	–	–	–	982,605	982,605
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 maturity profile of the assets and liabilities as at December 31, 2017 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	19,997,123	–	–	–	–	19,997,123
Deposits and balances due from banks, net	7,230,538	1,839,367	825,418	1,395,361	161,272	11,451,956
Reverse-repo placements	98,578	–	–	–	–	98,578
Trading securities	485,301	–	–	–	–	485,301
Derivative financial instruments	3,451,483	43,027	40,442	111,484	173,928	3,820,364
Investment securities	7,747,979	1,563,484	1,962,811	19,584,504	18,332,879	49,191,657
Loans and advances to customers, net	20,037,294	4,846,870	2,389,396	25,830,435	110,178,235	163,282,230
Investment in associate	–	–	–	–	205,372	205,372
Investment properties	–	–	–	634,780	–	634,780
Other assets	7,567,394	3,376,744	3,816,335	78,129	37,236	14,875,838
Property and equipment, net	–	–	–	–	960,096	960,096
Total assets	66,615,690	11,669,492	9,034,402	47,634,693	130,049,018	265,003,295
Liabilities and equity						
Due to banks	4,497,161	457,433	222,535	–	–	5,177,129
Derivative financial instruments	3,405,796	79,678	4,996	289,805	454,206	4,234,481
Deposits from customers	117,733,564	15,628,841	22,221,379	6,962,243	532,359	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	–	–	2,909,845
Borrowings	5,012,959	818,677	1,468,738	17,664,314	15,590,507	40,555,195
Other liabilities	9,339,985	3,010,650	3,798,818	–	453,866	16,603,319
Equity	–	–	–	–	32,444,940	32,444,940
Total liabilities and equity	141,016,679	20,810,408	28,783,968	24,916,362	49,475,878	265,003,295
Balance sheet liquidity gap	(74,400,989)	(9,140,916)	(19,749,566)	22,718,331	80,573,140	–
Off balance sheet						
Financial guarantees and irrevocable commitments	1,239,909	1,549,256	846,554	4,916,608	5,582,306	14,134,633

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2018 and 2017 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, 2018							
Liabilities							
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**
As at December 31, 2017							
Due to banks	5,177,129	5,200,218	4,504,333	466,231	229,654	–	–
Derivative financial instruments	4,234,481	3,450,014	3,220,854	148,831	(108,720)	16,438	172,611
Deposits from customers	163,078,386	165,019,265	118,627,024	15,753,960	22,723,354	7,361,768	553,159
Euro commercial paper	2,909,845	2,917,572	1,028,726	816,437	1,072,409	–	–
Borrowings	40,555,195	67,949,072	5,339,338	961,085	1,847,674	18,708,939	41,092,036
Total financial liabilities	215,955,036	244,536,141	132,720,275	18,146,544	25,764,371	26,087,145	41,817,806

45. Foreign exchange risk framework, measurement and monitoring

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 46. The off balance sheet position represents the nominal value of foreign currency swaps, forward exchange contracts and currency options, etc. and outstanding under the Group's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Group's statement of financial position are presented below:

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
As at December 31, 2018							
Assets							
Cash and balances with central banks, net	13,996,970	5,537,723	18	–	–	55,246	19,589,957
Deposits and balances due from banks, net	1,512,672	15,867,965	1,334,601	18,766	560,819	332,253	19,627,076
Reverse-repo placements	–	2,203,800	–	–	–	–	2,203,800
Trading securities	–	60,134	–	–	–	–	60,134
Derivative financial instruments	1,144,071	3,172,081	57	–	–	131,038	4,447,247
Investment securities	225,835	45,067,849	5,405,535	–	–	1,663,015	52,362,234
Loans and advances to customers, net	137,087,275	28,513,778	244,732	–	–	579,977	166,425,762
Investment in associate	205,158	–	–	–	–	–	205,158
Investment properties	576,671	–	–	–	–	–	576,671
Other assets, net	1,560,126	11,215,855	95,412	4,125	7,192	466,984	13,349,694
Property and equipment, net	977,784	–	–	–	–	4,821	982,605
Total assets	157,286,562	111,639,185	7,080,355	22,891	568,011	3,233,334	279,830,338
Liabilities and equity							
Due to banks	909,563	1,412,851	39,580	–	9	709,405	3,071,408
Derivative financial instruments	2,447,417	3,139,379	147	–	–	108,968	5,695,911
Deposits from customers	112,520,174	46,968,585	1,229,395	22,074	596,543	15,317,086	176,653,857
Euro commercial paper	–	2,338,833	715,882	–	224,587	–	3,279,302
Borrowings	–	37,652,000	470,211	1,321,141	163,944	3,420,453	43,027,749
Other liabilities	4,143,597	10,542,671	82,565	2,797	9,974	514,964	15,296,568
Equity	33,604,746	(799,203)	–	–	–	–	32,805,543
Total liabilities and equity	153,625,497	101,255,116	2,537,780	1,346,012	995,057	20,070,876	279,830,338
Net balance sheet position	3,661,065	10,384,069	4,542,575	(1,323,121)	(427,046)	(16,837,542)	–
Net off balance sheet position	9,429,669	(22,257,723)	(4,573,608)	1,167,610	290,579	15,943,473	–
Net FX open position	13,090,734	(11,873,654)	(31,033)	(155,511)	(136,467)	(894,069)	–

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
As at December 31, 2017							
Assets							
Cash and balances with central banks	14,504,751	5,445,259	142	–	–	46,971	19,997,123
Deposits and balances due from banks, net	2,063,438	7,436,761	1,612,669	42,877	30,410	265,801	11,451,956
Reverse-repo placements	–	98,578	–	–	–	–	98,578
Trading securities	–	485,301	–	–	–	–	485,301
Derivative financial instruments	1,150,191	2,540,359	1,661	–	–	128,153	3,820,364
Investment securities	259,782	41,220,069	5,817,192	–	–	1,894,614	49,191,657
Loans and advances to customers, net	139,715,293	22,771,460	68,667	–	7	726,803	163,282,230
Investment in associate	205,372	–	–	–	–	–	205,372
Investment properties	634,780	–	–	–	–	–	634,780
Other assets	1,564,089	13,052,772	115,870	4,780	5,282	133,045	14,875,838
Property and equipment, net	954,711	–	–	–	–	5,385	960,096
Total assets	161,052,407	93,050,559	7,616,201	47,657	35,699	3,200,772	265,003,295
Liabilities and equity							
Due to banks	1,597,936	3,355,215	47,094	–	5,963	170,921	5,177,129
Derivative financial instruments	1,581,096	2,534,631	401	–	25	118,328	4,234,481
Deposits from customers	102,099,129	45,936,179	1,503,256	34,570	737,664	12,767,588	163,078,386
Euro commercial paper	–	1,159,843	1,279,166	–	470,836	–	2,909,845
Borrowings	–	36,151,149	317,227	680,745	–	3,406,074	40,555,195
Other liabilities	4,761,740	11,747,428	38,651	4,941	–	50,559	16,603,319
Equity	32,243,751	201,189	–	–	–	–	32,444,940
Total liabilities and equity	142,283,652	101,085,634	3,185,795	720,256	1,214,488	16,513,470	265,003,295
Net balance sheet position	18,768,755	(8,035,075)	4,430,406	(672,599)	(1,178,789)	(13,312,698)	–
Net off balance sheet position	1,798,008	(1,809,604)	(6,637,655)	698,926	990,099	4,960,226	–
Net FX open position	20,566,763	(9,844,679)	(2,207,249)	26,327	(188,690)	(8,352,472)	–

46. Market risk framework, measurement and management

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

MARKET RISK ARISING FROM TRADING BOOK

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

MARKET RISK ARISING FROM BANKING BOOK

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in instruments designated at FVTOCI, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

RISK IDENTIFICATION AND CLASSIFICATION

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

MANAGEMENT OF MARKET RISK

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

Market risk management is overseen by MRCC and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

RISK MEASUREMENT

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

STATISTICAL RISK MEASURES

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Group's VaR for the year ended December 31 is as below:

	2018 AED'000	2017 AED'000
Daily value at risk (VaR at 99% — 1 day)		
Overall risk	**(5,496)**	(10,786)
Average VaR	**(6,621)**	(9,423)

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

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:

	2018		2017	
Price Shock in percentage	+5% AED'000	-5% AED'000	+5% AED'000	-5% AED'000
USD-AUD	**(207)**	**1,689**	900	498
EUR-USD	**(15,493)**	**24,965**	(5,229)	23,847
GBP-USD	**1,182**	**(914)**	2,540	2,753
USD-JPY	**1,474**	**8**	1,063	1,665
USD-CHF	**2,303**	**(133)**	527	999
USD-INR	**(13,762)**	**6,991**	(10,783)	11,918

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:

	2018		2017	
	+25bps AED'000	-25bps AED'000	+25bps AED'000	-25bps AED'000
AED	**(3,941)**	**10,713**	29,424	(27,274)
USD	**(110)**	**466**	(24,052)	42,262

INTEREST RATE RISK — BANKING 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:

	2018		2017	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	107,807	(107,807)	59,187	(59,187)

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.

47. Operational risk management

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 Group manages operational risk exposures through a consistent set of management processes that includes but is not limited to: risk identification through analysis of end to end processes within the Group, assessment of risk within those processes on an inherent and residual basis, implementing of control and prevention strategies, mitigation and monitoring of risk. The Operational Risk Management Framework is built on elements that allow the Group to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses.

The framework is governed by three lines of defence concept:

- Each business group, as an integral part of their first line of defence responsibilities, is responsible for identifying and managing risks that arise from their activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with the adopted risk assessment matrix which takes into consideration the likelihood of the event as well as its financial, regulatory, reputational and customer impact. Significant and major risks are analysed to identify the root cause of any failure for remediation, prevention and mitigation of future similar events. Additionally, data on operational losses is systematically collected and analysed to identify loss causal factors, trends and concertation and subsequently to address the root cause of such failures.
- As the second line of defence, Group Operational Risk Management ("GORM") is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and providing tools to manage and monitor operational risks within the Group's activities as well as providing consolidated operational risk reporting to the Group Management and the Board of Directors. GORM function is well supported by the first line Business Operational Risk Managers, for identifying and escalating risks that are material to the Group and for maintaining an effective control environment across the organisation. The business lines' inputs to and outputs from the Group's risk management and risk measurement and reporting systems are adequately challenged by the second line GORM. New products, material process changes and critical outsourcing arrangements are also assessed and authorised in accordance with the Compliance Enterprise Risk Advisory and Internal Control process and product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis reporting is done to the Heads of Business Group, Senior Management Committees and the Board Risk Committee.
- As the third line of defence, Internal Audit function provides further independent review of the Group's operational risk management processes, systems and controls and reports to the Board and Senior Management Committee.

48. Foreign currency balances

Net assets amounting to Indian Rupee equivalent of AED 212,871 thousand (December 31, 2017 — AED 231,771 thousand) held in India are subject to the exchange control regulations of India.

49. Trust activities

As at December 31, 2018, the net asset value of the funds under the management of the Group amounted to AED 2,504,545 thousand (December 31, 2017 — AED 2,507,245 thousand).

50. Subsidiaries

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Ownership interest	Incorporation Year	Incorporation Country	Principal activities
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 (*)	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 Properties Consultancy LLC (*)(**)	100%	2008	UAE	Real estate consultancy.
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.
Abu Dhabi Commercial Enterprises LLC (*)(**)	100%	2013	Qatar	Engineering services.
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.

(*) dormant
(**) under liquidation

51. Capital adequacy 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:

	2018 AED'000	2017 AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 21)	**5,198,231**	5,198,231
Share premium	**2,419,999**	2,419,999
Other reserves (Note 22)	**7,659,349**	7,680,403
Retained earnings	**14,010,929**	13,124,950
Regulatory deductions and adjustments		
Intangible asset (Note 14) (*)	**(18,800)**	(15,040)
Cash flow hedge reserve (Note 22) (*)	**(148,778)**	(152,296)
Employee's incentive plan shares, net (Note 22) (*)	**(41,758)**	(51,932)
Revaluation reserve of investments designated at FVTOCI (Note 22)	**(609,542)**	26,914
Total CET1 capital	**28,469,630**	28,231,229
Additional tier 1 (AT1) capital		
Capital notes (Note 25)	**4,000,000**	4,000,000
Transitional deduction from AT1 capital (10% for 2017)	**–**	(27,408)
Total AT1 capital	**4,000,000**	3,972,592
Total tier 1 capital	**32,469,630**	32,203,821
Tier 2 capital		
Eligible general provision	**2,359,353**	2,212,762
Subordinated notes (Note 19)	**1,841,730**	4,233,619
Transitional deduction from tier 2 capital (10% for 2017)	**–**	(27,408)
Total tier 2 capital	**4,201,083**	6,418,973
Total regulatory capital	**36,670,713**	38,622,794
Risk-weighted assets		
Credit risk	**188,748,218**	177,020,965
Market risk	**8,396,389**	10,718,938
Operational risk	**15,262,739**	14,529,229
Total risk-weighted assets	**212,407,346**	202,269,132
CET1 ratio	**13.40%**	13.96%
AT1 ratio	**1.88%**	1.96%
Tier 1 ratio	**15.28%**	15.92%
Tier 2 ratio	**1.98%**	3.17%
Capital adequacy ratio	**17.26%**	19.09%

(*) transitional deduction from CET1 capital (80% for 2017)

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 (DSIB) buffer of 0.5%. ADCB has been listed as a D-SIB and is required to maintain a D-SIB buffer of 0.5% from 2019.

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	2017	2018	2019
CET1 including buffers			
– CET1	7.00%	7.00%	7.00%
– CCB	1.25%	1.88%	2.50%
– D-SIB buffer	0.25%	0.38%	0.50%
CET1 including buffers	8.50%	9.25%	10.00%
Tier 1	10.00%	10.75%	11.50%
Minimum capital requirement	12.00%	12.75%	13.50%

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. Transfer to statutory reserve for the year is no longer required as the reserve has reached 50% of the paid up share capital. 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. Transfer to legal reserve for the year is no longer required as the reserve has reached 50% of the nominal value of the paid up share capital. 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. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. 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

(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.

(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 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.

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).

52. Social contributions

The Group made the following social contributions during the year:

	2018 AED'000	2017 AED'000
Donations	**1,497**	5,560
Sponsorships	**6,998**	12,371
Total social contributions	**8,495**	17,931

53. 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 statements if disposed unfavourably.

54. Subsequent events

On January 29, 2019, the Boards of Directors of ADCB and Union National Bank ("UNB") approved and recommended to the shareholders a merger of the two banks.

The proposed merger will be executed through a statutory merger, with UNB shareholders receiving 0.5966 ADCB shares for each UNB share they hold. As a result of the merger, ADCB shareholders will own approximately 76% of the combined bank while UNB shareholders will own approximately 24%. On the effective date of the merger, UNB shares will be delisted from the Abu Dhabi Securities Exchange. The combined bank will retain ADCB's legal registrations.

Further, the Boards of Directors of ADCB and UNB have also approved and recommended the acquisition of 100% of the issued share capital of Al Hilal Bank ("AHB") by the combined bank by issuing a mandatory convertible note to AHB's sole shareholder, Abu Dhabi Investment Council. The note will be convertible into 117,647,058 post-merger ADCB shares.

However, the merger and acquisition are subject to approval from the shareholders of ADCB, UNB and AHB at their respective general assembly meetings and from relevant regulatory authorities.

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